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European Union Committee

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The Multiannual Financial Framework 2014–2020

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NOTE:
Evidence is published online at www.parliament.uk/hleu and available for inspection at the Parliamentary Archives (020 7219 5314).

References in footnotes to the Report are as follows:
Q # refers to a question in oral evidence heard by the Select Committee, the Sub-Committee on Economic and Financial Affairs and International Trade;
Q # (Sub-Committee G) refers to a question in oral evidence heard by the Sub-Committee on Social Policies and Consumer Protection;
MFF # refers to written evidence given to this inquiry;
EUFF # refers to evidence given to the Select Committee's previous inquiry;
EUFF Q # refers to oral evidence heard by the Select Committee as part of its previous inquiry

SUMMARY

The EU's next Multiannual Financial Framework (MFF) will run from 2014 to 2020 and will dictate much of what the EU does until the end of this decade. This report considers the Commission's detailed proposals for this seven-year budget in the context of the euro area crisis and uncertain growth figures for the start of the next MFF. The Government oppose any increase in real terms, and this position has dominated their response to the Commission's proposals and their evidence to us. While we agree with the need for budgetary restraint, this report considers each of the Commission's key proposals on its own merits and makes recommendations for both budgetary restraint and budgetary increases, where these are justified.

The MFF consists of five separate headings, but these are not of equal size within the budget. Headings 1 and 2—Smart and Inclusive Growth, and Sustainable Growth respectively—dominate the MFF, accounting for 43 and 44 per cent of the total. Heading 1 includes cohesion funding, as well as a range of smaller programmes. We are broadly supportive of the Commission's proposed budget and reforms for cohesion funding, including the Common Strategic Framework, which forms part of the Commission's simplification agenda. However, we remain opposed to the proposal to introduce macroeconomic conditionality; withdrawing funds from an ailing economy only risks making matters worse.

In our previous report on the 2014–2020 MFF, we strongly urged greater reform of the Common Agricultural Policy (CAP), in particular Pillar 1, which forms the bulk of Heading 2. The Commission has told us that the CAP remains a "strategic policy"; however, we conclude that the Commission's proposed reforms do little to increase the added value offered by the CAP. While we support evolutionary change of the CAP, far greater efforts must be made to reduce the CAP's budget and to begin phasing out direct payments to farmers. A reduction in the CAP's budget will allow the MFF to focus funding on areas that will support growth and encourage innovation. We would see funds redistributed from the CAP towards other programmes such as Creative Europe, which offers growth potential.

The Commission has also proposed reforms to the way the MFF is financed, most notably proposing an EU-wide Financial Transaction Tax (FTT) and recommending a new system of correction mechanisms to replace the UK's rebate and other Member States' temporary corrections. We strongly oppose such reforms, which needlessly distract from the debate about MFF expenditure.

The Multiannual Financial Framework 2014–2020

CHAPTER 1: INTRODUCTION

1. The EU's Multiannual Financial Framework (MFF) is proposed by the European Commission and agreed between the Council of Ministers and the European Parliament. It provides a structure within which annual budgets are set, and its purpose is to maintain budgetary discipline.[1] The MFF is thus a crucial piece of EU policy, which will impact much of the EU's activity for years to come.
2. The current MFF covers 2007–13. Following two Communications from the Commission, *The EU Budget Review* ("the 2010 Budget Review")[2] and *A Budget for 2020*,[3] the Commission published a full suite of proposals for an MFF to cover 2014–20. Negotiations on these proposals are expected to take place in the Council throughout 2012. Under the Danish Presidency, in the first half of 2012, it is expected that "negotiating boxes"—the parameters for future negotiations—will be established prior to negotiations on the size of specific budget lines being undertaken in the latter part of 2012.
3. Our first report into the MFF from 2014 scrutinised the 2010 Budget Review and the UK Government's robust initial response.[4] This follow-up report scrutinises the Commission's latest, detailed proposals alongside the Government's responses to these policy instruments. Appendix 5 of this report lists some 80 detailed proposals that have been considered as part of this inquiry.
4. **We make this report to the House for debate.**
5. The rest of this chapter gives a brief overview of the EU's budget.[5]

Multiannual Financial Framework 2007–2013

6. Table 1 shows the figures for the MFF 2007–13, in €mn, and at 2011 prices. The following definitions apply to this Table, and throughout this Report:
   (i) Appropriations: The EU budget distinguishes between commitment appropriations (pledges to pay) and payment appropriations (actual payments to be made in a given year). The distinction is important because multiannual programmes and projects are usually committed in the year they are decided, but paid over multiple years as implementation progresses.
   (ii) GNI (gross national income): This differs from GDP (gross domestic product), which accounts for goods and services produced within a country. Critical to the distinction is that countries that become more

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1 Article 310(4), Treaty on the Functioning of the European Union (TFEU). The EU's budgetary year runs from 1 January.

2 COM(2010)700

3 COM(2011)500/I

4 13th Report (2010–12): *EU Financial Framework from 2014* (HL Paper 125)

5 Additional information can be found in: *European Union Finances 2011*, the latest in an annual series of Command Papers by HM Treasury, referred to hereafter as *EU Finances 2011* (Cm 8232, Dec 2011); *The EU Budget*, a Standard Note by the House of Commons Library (SN/EP/864); *UK-EU Economic Relations*, a Standard Note by the House of Commons Library (SN/EP/6091); and at http://ec.europea.eu/budget/.

heavily indebted and experience higher costs of servicing their debt, or have increases in net remittances of profits to other countries, will see a decrease in GNI, but not in GDP.

(iii) Own Resources Ceiling: This is defined as "the total amount of own resources allocated to the Communities to cover annual appropriations for payments", and has now been set at no more than 1.23 per cent of the sum of all Member States' GNIs, with the corresponding ceiling for commitment appropriations set at 1.31 per cent of GNI.[6]

(iv) Margin: The "headroom" between payment appropriations and the ceiling. Over the 2007–13 period, this margin was projected to be around 0.16% of GNI, notwithstanding the slower than anticipated growth of GNI for Member States.

[6] Own Resources Decision 2007, Article 3.1. The "Communities" are now the Union. The own resources ceiling was decreased from 1.24 per cent to 1.23 per cent of EU GNI following the Council Decision (OJ L87 (7 April 2010) pp31–32) of 16 March 2010.

TABLE 1

Multiannual Financial Framework 2007–13 (in €mn)

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007–2013
1. Sustainable Growth, comprising:	53,979	57,653	61,696	63,555	63,974	66,964	69,957	437,778
1a. Competitiveness for Growth and Employment	8,918	10,386	13,269	14,167	12,987	14,203	15,433	89,363
1b. Cohesion for Growth and Employment	45,061	47,267	48,427	49,388	50,987	52,761	54,524	348,415
2. Preservation and Management of Natural Resources, comprising:	55,143	59,193	56,333	59,955	60,338	60,810	61,289	413,061
Market related expenditure and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,574	330,085
3. Citizenship, freedom, security and justice, comprising:	1,273	1,362	1,518	1,693	1,889	2,105	2,376	12,216
3a. Freedom, Security and Justice	637	747	867	1.025	1.206	1.406	1.661	7.549
3b. Citizenship	636	615	651	668	683	699	715	4.667
4. EU as a global player	6,578	7,002	7,440	7,893	8,430	8,997	9,595	55,935
5. Administration	7,039	7,380	7,525	7,882	8,334	8,670	9,095	55,925
6. Compensations	445	207	210					862
Total commitment appropriations	124,457	132,797	134,722	140,978	142,965	147,546	152,312	975,777
As a percentage of GNI	1.02	1.08	1.16	1.18	1.16	1.15	1.14	1.13
Total payment appropriations	122,190	129,681	120,445	134,289	134,280	141,360	143,331	925,576
As a percentage of GNI	1.00	1.05	1.04	1.12	1.09	1.10	1.07	1.07
Margin available as a percentage of GNI	0.24	0.19	0.20	0.11	0.14	0.13	0.16	0.16
Own Resources Ceiling as a percentage of GNI	1.24	1.24	1.24	1.23	1.23	1.23	1.23	1.23

Multiannual Financial Framework 2014–20

7. The Commission's proposals retain substantially the same framework as in the current MFF. There are again five Headings, but these have been renamed:

   (i) Heading 1: Smart and Inclusive Growth, including cohesion funding

   (ii) Heading 2: Sustainable Growth: Natural Resources, including market-related expenditure and direct payments

   (iii) Heading 3: Security and Citizenship

   (iv) Heading 4: Global Europe

   (v) Heading 5: Administration

8. In addition, the Commission proposes six funds and two projects outside the MFF. We will have more to say on these in Chapter 7.

9. Tables 2 and 3 set out the Commission's proposals in €mn, and at 2011 prices. Figure 1 compares the current MFF and the proposed MFF from 2014 in terms of commitment appropriations in 2011 prices. It shows the overall envelopes of each of the five Headings, as well as of the two large sub-headings, cohesion in Heading 1, and market-related expenditure and direct agricultural payments in Heading 2.

TABLE 2

Multiannual Financial Framework 2014–20 (in €mn)

Commitment appropriations	2014	2015	2016	2017	2018	2019	2020	Total 2014–2020
1. Smart and Inclusive Growth, comprising:	64,696	66,580	68,133	69,956	71,596	73,768	76,179	490,908
Economic, social and territorial cohesion	50,468	51,543	52,542	53,609	54,798	55,955	57,105	376,020
2. Sustainable Growth: Natural Resources, comprising:	57,386	56,527	55,702	54,861	53,837	52,829	51,784	382,927
Market-related expenditure and direct payments	42,244	41,623	41,029	40,420	39,618	38,831	38,060	281,825
3. Security and Citizenship	2,532	2,571	2,609	2,648	2,687	2,726	2,763	18,535
4. Global Europe	9,400	9,645	9,845	9,960	10,150	10,380	10,620	70,000
5. Administration	8,542	8,679	8,796	8,943	9,073	9,225	9,371	62,629
Total commitment appropriations	142,556	144,002	145,085	146,368	147,344	148,928	150,718	1,025,000
As a percentage of GNI	1.08	1.07	1.06	1.06	1.05	1.04	1.03	1.05
Total payment appropriations	133,851	141,278	135,516	138,396	142,247	142,916	137,994	971,198
As a percentage of GNI	1.01	1.05	0.99	1.00	1.01	1.00	0.94	1.00
Margin available	0.22	0.18	0.24	0.23	0.22	0.23	0.29	0.23
Own Resources Ceiling as a percentage of GNI	1.23	1.23	1.23	1.23	1.23	1.23	1.23	1.23

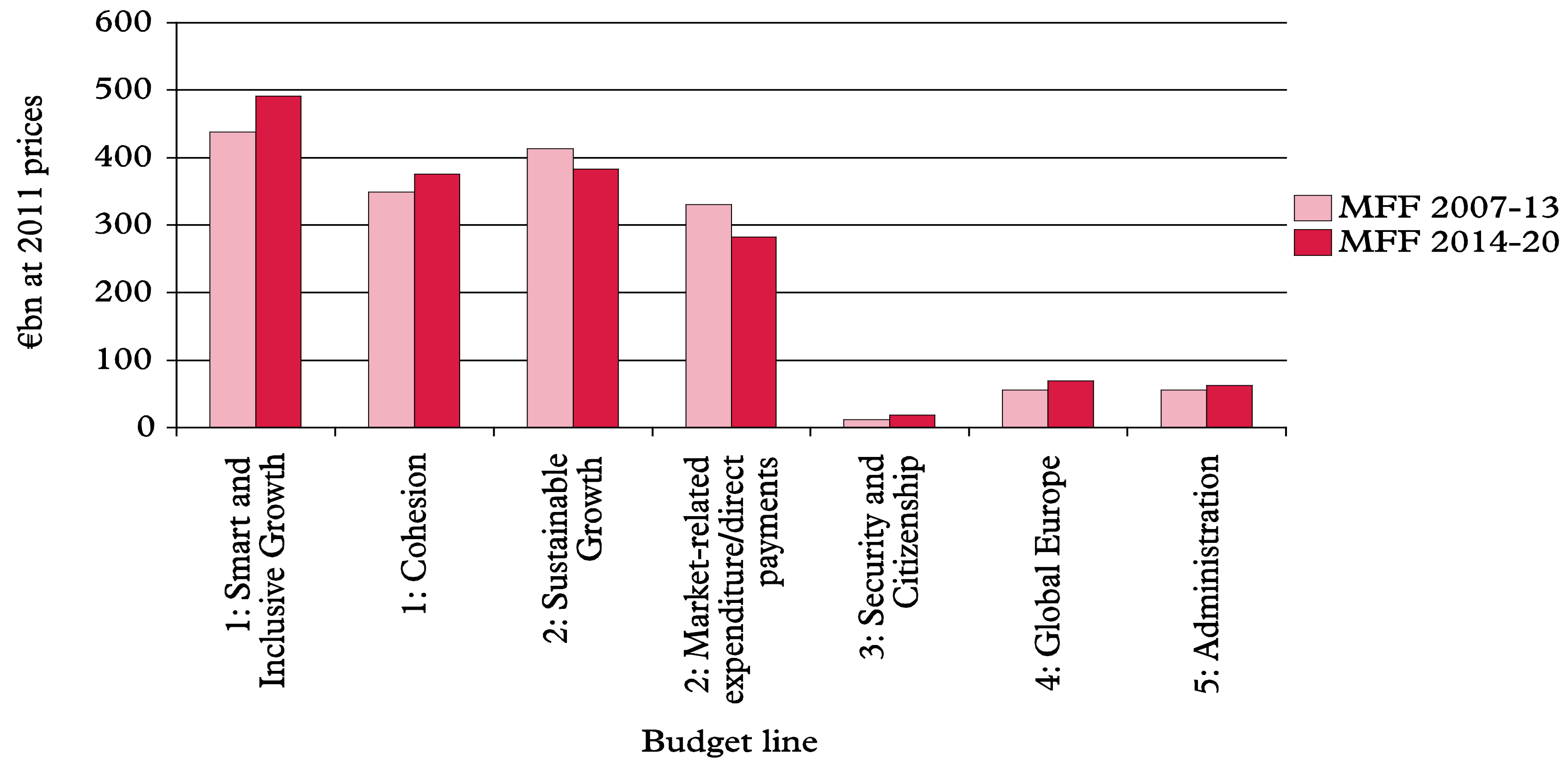
TABLE 3

Multiannual Financial Framework 2014–20: Off-budget expenditure (in €mn)

Commitment appropriations	2014	2015	2016	2017	2018	2019	2020	Total 2014–2020
Emergency Aid Reserve	350	350	350	350	350	350	350	2,450
European Globalisation Fund	429	429	429	429	429	429	429	3,000
Solidarity Fund	1,000	1,000	1,000	1,000	1,000	1,000	1,000	7,000
Flexibility Instrument	500	500	500	500	500	500	500	3,500
Reserve for crises in the agricultural sector	500	500	500	500	500	500	500	3,500
ITER	886	624	299	291	261	232	114	2,707
GMES	834	834	834	834	834	834	834	5,841
European Development Fund: African, Caribbean and Pacific Countries	3,271	4,300	4,348	4,407	4,475	4,554	4,644	29,998
European Development Fund: Other Countries and Territories	46	46	46	46	46	46	46	321
Global Climate and Biodiversity Fund	(not set)	(not set)	(not set)	(not set)	(not set)	(not set)	(not set)	(not set)
Total outside the MFF	7,815	8,583	8,306	8,357	8,395	8,445	8,416	58,316
Total MFF + Outside MFF	150,371	152,585	153,391	154,725	155,739	157,372	159,134	1,083,316
As a percentage of GNI	1.13	1.13	1.12	1.12	1.11	1.10	1.09	1.11

FIGURE 1

Comparative view of current and proposed MFF expenditure

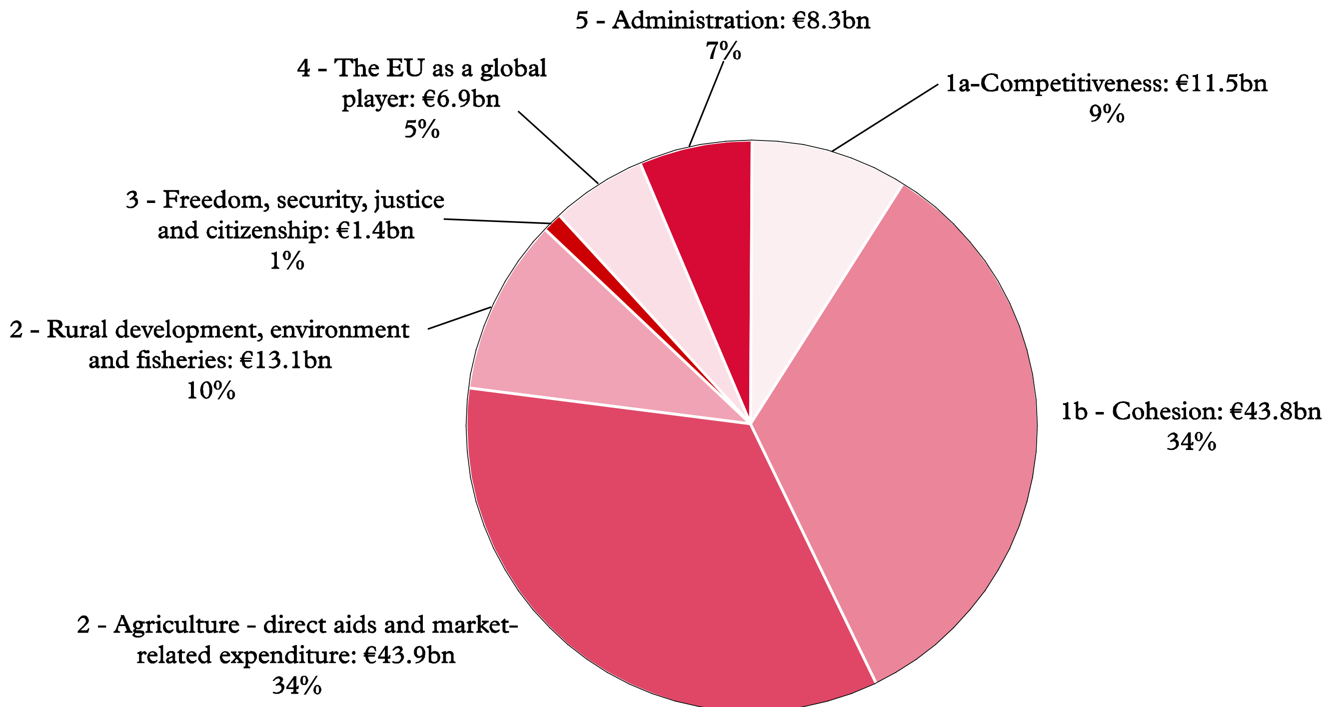


Annual budgets

10. Annual budgets are agreed between the European Parliament and the Council.[7] The EU budget for 2012 is divided as in Figure 2. In comparison with the EU budget for 2011, set out in our previous report,[8] the 2012 Budget saw an increase in cohesion funding,[9] small increases to the agricultural and administration budgets, and small decreases in all other Headings.

FIGURE 2

EU Budget 2012 (in payment appropriations)



The EU's own resources

11. The system of funding the EU is set out in the EU's Own Resources Decision (ORD), the most recent of which dates from June 2007.[10] The ORD is subject to unanimity in the Council, with consultation of the European Parliament. The EU may not borrow to fund the annual budget, so expenditure must be matched by revenue; this is the "balanced budget" principle.[11] The EU ensures that expenditure and revenue match by increasing the GNI-based resource as necessary, up to the ceiling. Surplus revenue is carried forward into the next financial year.

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7 Article 314 TFEU. If no budget has been agreed by the start of the financial year (1 January), the appropriations in the previous year's budget are carried forward until a new budget is agreed, in equal monthly amounts ("provisional twelfths") (Article 315). All expenditure under the TFEU and Euroatom, and expenditure under the Common Foreign and Security Policy (CFSP) that is charged to the EU budget, must be shown in the annual budget (Article 310). CFSP administrative and operating expenditure is charged to the EU budget except if it relates to "operations having military or defence implications" (Article 41). Other CFSP expenditure is charged to Member States.

8 *EU Financial Framework*, Figure 1

9 This is expected in the second half of an MFF, largely because of the skewed nature of such spending over time, with payments in later years reflecting commitments made during previous years.

10 OJ L163 (23 June 2007) pp17–21

11 Article 311, TFEU

12. The ORD sets out four sources of EU revenue, the first two of which are known as "traditional own resources" (TOR):
    (a) Customs duties, including those on agricultural products;
    (b) Sugar levies;
    (c) Contributions based on VAT; and
    (d) Contributions based on GNI.
13. The EU budget is currently funded by the Member States as follows.

TABLE 4

EU Own Resources

Resource	Description	per cent in 2011
GNI-based resource	A uniform rate applied to gross national income	75
TOR	Customs duties, agricultural levies, and levies on EU sugar production	13
VAT-based resource	A uniform rate applied to the VAT base[12]	11
Other		1

Source: EU budget 2011, Commission

14. The proportions in which these resources fund the EU have altered considerably. In 1988, when the GNI-based resource was first introduced, the proportions were: VAT-based resource, 61 per cent; TOR, 29 per cent; and GNI-based resource, 10 per cent.[13] Given the residual character of the GNI-based resource, it is susceptible to variation depending on the profile of expenditure and the funds yielded by the first three resources, and over the past two decades, Member States have thus seen a significant rise in GNI-based contributions.

Abatements and correction mechanisms

15. The EU budget is also subject to a system of correction mechanisms. A Member State's contribution may be compared to its receipts in EU grants and expenditure, giving the "net contribution". Since 1984, the UK has benefited from an abatement, or rebate, of 66 per cent of its net contribution, with a one year lag, subject to the following provisos (spelt out in the ORD):
    (i) EU overseas aid and other external spending is excluded from the calculation;
    (ii) The UK contribution is calculated as though the budget were entirely financed by the VAT-based resource; and
    (iii) Since 2009, non-agricultural spending in the 12 Member States that joined in or after 2004 is excluded from the calculation.
16. Other temporary correction mechanisms apply to Austria, Germany, the Netherlands, and Sweden. These are due to expire at the end of 2013.

[12] The amount yielded by applying a notional rate of 1 per cent to an identical range of goods and services, subject to a cap of 0.5 per cent of GNI.

[13] SEC(2010)7000

17. According to HM Treasury, the UK's gross contribution in 2011 was forecast to be £15bn gross. The net contribution was forecast to be £7bn, taking into account the abatement and receipts from the EU that flow to the public sector.[14]

Our inquiry

18. This report was prepared by the European Union Select Committee, whose members are listed in Appendix 1 with declarations of interest. This report also reflects contributions from all seven of our Sub-Committees, based on their expert understanding of particular policy fields derived from their scrutiny and inquiry work. These Sub-Committees, their members, and declarations of interest are also listed in Appendix 1.[15]

19. As part of our follow-up inquiry, we have received evidence from those witnesses listed in Appendix 2, to whom we are grateful. Our call for evidence is reproduced in Appendix 3. This report also relies on evidence received as part of the Committee's earlier inquiry into this same subject, and evidence given to our specialist Sub-Committees. These witnesses are also listed in Appendix 2, and include the Scottish Government, the Scottish Parliament's European and External Relations Committee, and the National Assembly of Wales' European and External Affairs Committee.[16] Appendix 4 sets out a short glossary of terms. Appendix 5 lists those Commission proposals that were considered as part of this inquiry.

20. The issue of financial management and the Court of Auditors' Statements of Assurance have not formed part of this inquiry. This issue is ongoing, rather than specific to the current MFF proposals. Likewise, we have not examined the budget implications of EU enlargement, or the difficult negotiations over recent annual budgets. In considering the Commission's own resources proposals, we have not addressed the principles of a Financial Transaction Tax (FTT), which has been subject to an inquiry of the Sub-Committee on Economic and Financial Affairs, and International Trade;[17] this report restricts itself to considering the specific proposals put forward by the Commission for an FTT to form part of the financing system of the EU budget.

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[14] *EU Finances 2011*, Table 3B

[15] We are grateful to our Specialist adviser for the inquiry, Professor Iain Begg, Professorial Research Fellow at the European Institute of the London School of Economics. We are grateful for his expert knowledge, guidance, and his valuable contribution to this report.

[16] Since providing written evidence to our earlier inquiry, the National Assembly of Wales' (NAW) European and External Affairs Committee has been dissolved, and European issues have been 'mainstreamed' within the remits of NAW's other committees.

[17] See our 29th Report (2010–12): *Towards a Financial Transaction Tax?* (HL Paper 287)

CHAPTER 2: PRINCIPLES

21. The Commission has suggested that the EU budget is to have a "pan-European, not a national, logic" and that it has five key objectives:
    (i) Funding common policies that Member States have agreed should be handled at EU-level;
    (ii) Expressing solidarity between Member States and regions in order to support development and allow the EU to function as a single economic space;
    (iii) Financing interventions to complete the single market that could not be financed by individual Member States alone;
    (iv) Ensuring synergies and economics of scale by facilitating cooperation and joint solutions; and
    (v) Responding to persistent and emerging challenges that call for a common approach.[18]

22. These key objectives inform the five principles that the Commission aims to implement in the next MFF, set out in its 2010 Budget Review as:
    (i) A focus on delivering key policy priorities;
    (ii) A focus on EU added value;
    (iii) A focus on impacts and results;
    (iv) Delivery of mutual benefits across the EU; and
    (v) Reformed budget financing.[19]

23. This report evaluates the Commission's proposals against the first four of these principles, which relate to the expenditure side of the MFF. We consider the Commission's proposed financing reforms in Chapter 8. The rest of this chapter provides a brief overview of the other major considerations in evaluating the Commission's proposals.

European added value

24. Although singled out as one of the principles of the MFF, European added value (EAV) underpins all of the first four principles set out in the Commission's Budget Review and is a crucial benchmark.[20] In brief, EAV is the obverse of subsidiarity: spending should take place at EU level only when it is more effective than spending at national level.[21] EAV is not the same as value for money (VFM), although both are desirable qualities for EU spending.

25. Demonstrable EAV within the budget is fundamental to a Union that acts both efficiently and in appropriate areas. To this end, the Implementing Rules for the Financial Regulation require that all proposals "occasioning expenditure shall be subject to an *ex ante* evaluation" of EAV,[22] and the Director-General of the European Commission's Budget Directorate-

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[18] COM(2011)500, p.7
[19] COM(2010)700, pp.4–6
[20] EAV was discussed in detail in our previous report (*EU Financial Framework*, paras. 20–32).
[21] Article 5 TEU defines the subsidiarity principles as follows: "in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level."
[22] Article 21(1)(b)

General told us that the Commission kept always in mind the question of whether action at EU level offered clear benefits.[23]

26. This approach can be compared with a "*juste retour*" approach, that is a focus on the level of funding returning to a Member State from the EU budget, even if such funding fails to offer demonstrable EAV. A *juste retour* approach might run contrary to the "pan-European logic" the Commission advocates, but is not necessarily contrary to the objectives set out above (see paragraph 21). For example, the Common Agricultural Policy (CAP), discussed in Chapter 4, does not offer high EAV and is strongly defended by Member States who benefit from it, but is an agreed common policy that receives funding from the EU budget. A *juste retour* approach, however, does conflict with the five key principles set out by the Commission (see paragraph 22), which are underpinned by a focus on EAV.

27. EAV is difficult to define. In our last report, we concluded that EAV was "a subjective and in the end political quantity", and we remain of this view.[24] EAV can sometimes be demonstrated on a "balance sheet", but this is often a crude indicator. The Commission's Staff Working Paper on EAV made explicit three criteria used to evaluate the MFF proposals: effectiveness, efficiency, and synergy.[25] These are criteria that we have held in mind in our examination of the Commission's proposals, and it can often be easier to identify EAV in specific proposals, rather than in the abstract. For example, the Commission has cited intervention to complete the internal market and the funding of world-class research and innovation as examples where EAV is strongly identifiable due to economies of scale, cross-border challenges, or a need for investment at a larger scale than is possible at national level.[26]

28. In addition to the difficulty of defining EAV, we recognise that the weight given to EAV by Member States during negotiations varies widely. This was raised by witnesses to our previous inquiry,[27] and in their written evidence to this inquiry, the Government have told us that "some Member States value receipts from the budget particularly highly, regardless of relative value". They identified this as the cause of the continued dominance of programmes such as the Common Agricultural Policy (CAP).[28] We will have more to say about the CAP in Chapter 4.

29. **We previously concluded that "the MFF negotiation provides an opportunity to move EU spending closer to European Added Value, and this should be the Government's objective".[29] We remain of this view. The various elements of the MFF ought to be negotiated on their objective merits, and a focus on added value can assist in making this happen. National interest in protecting funding streams should not be a block to increasing the impact of EU funding, in any area of the MFF.**

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23 Q 57

24 *EU Financial Framework*, para. 30

25 SEC(2011)867

26 COM(2011)500, p.7

27 EUFF 2

28 MFF 11

29 *EU Financial Framework*, para. 31

Europe 2020

30. The Europe 2020 objectives are a set of key policies that form part of the EU's strategy for economic growth, agreed by the European Council on 17 June 2010. Europe 2020 focuses on "smart, sustainable, inclusive growth", with five headline goals and seven flagship policies, set out in Box 1 below. However, we note, as the Government remarked to us in their oral evidence, that Europe 2020 includes some 500 actions in total.[30] In this report, reference to the Europe 2020 strategy and its objectives relate to the headline goals and flagship policies.

BOX 1

Europe 2020 Headline Goals and Flagship Policies

Headline goals

1. Aiming to raise to 75% the employment rate for women and men aged 20–64, including through the greater participation of young people, older workers and low-skilled workers, and the better integration of legal migrants.

2. Improving the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3% of GDP, with further work on an indicator reflecting R&D and innovation intensity.

3. Reducing greenhouse gas emissions by 20% compared to 1990 levels; increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency.

4. Improving education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30–34 year-olds having completed tertiary or equivalent education to at least 40%.

5. Promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion.

Flagship policies for:

Smart growth:

1. Digital agenda for Europe
2. Innovation Union
3. Youth on the Move

Sustainable Growth:

1. Resource-efficient Europe
2. An industrial policy for the globalisation era

Inclusive growth:

1. An agenda for new skills and jobs
2. European platform against poverty

31. Of the five Headings of the proposed MFF, Headings 1 and 2 have been renamed after facets of the Europe 2020 strategy ("smart and inclusive" and "sustainable"). This manifests the Commission's intention to align the next MFF more closely with Europe 2020, and the Commission has told us that

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[30] Q 78

over 80 per cent of the proposed MFF funding targets the Europe 2020 objectives via Headings 1 and 2.[31]

32. The European Economic and Social Committee (EESC) supported greater alignment between the MFF and Europe 2020, with "visible links between budgetary activity and strategy pillars", and the Committee of the Regions (COR) welcomed the renaming of Headings to reflect Europe 2020. The Local Government Association (LGA) also welcomed further alignment between the MFF and the Europe 2020 strategy, but questioned whether the EU budget could truly match the ambition of the Europe 2020 strategy. In a recent paper, Arnout Mijs and Adriaan Schout spoke of aligning the MFF and Europe 2020 as a *fait accompli*: "the MFF is the financial translation of Europe 2020".[32]

33. Our previous report considered the MFF through the prism of Europe 2020, and we concluded that "achieving the Europe 2020 strategy should be among the objectives of the next MFF" but "should be balanced with the need to fund other EU priorities".[33] **The Commission are right to identify achieving the Europe 2020 strategy as an objective of the next MFF, but this must be balanced with the need to fund other EU priorities, such as protecting biodiversity, and the area of freedom, security and justice. Such balance is necessary so that the EU can respond clearly and collectively to the principal challenges facing it today.**

34. **We highlight the need to consider spending on the Europe 2020 goals in the context of EAV; Europe 2020 is an EU-level strategy but does not necessarily demand EU-level spending. Alternative EU policy instruments, such as voluntary guidelines or policy coordination may be more appropriate tools in some cases.**

Budget size

35. A sixth, implicit principle underlies the Commission's proposals, which it describes as the EU "living within its means". The Commission has said that its proposals strike a balance between cutting back and investing for the future, and highlighted the relatively small nature of the EU budget. It noted that, on average over the next MFF, the EU budget in payment appropriations would amount to 1 per cent of EU GNI, compared with 1.18 per cent between 1993–99 and 1.06 per cent over 2000–07.[34]

36. There is disagreement about whether or not the Commission's proposals achieve the necessary balance. The Government, along with the governments of a number of other Member States, have called for the overall envelope of the MFF to be cut by €100bn, while others have called for an unspecified reduction.[35] A particular point of contention is the baseline from which to measure the level of increase represented by the current proposals. The Commission's proposals set out comparisons with the commitments ceiling

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[31] MFF 8, Supplementary written evidence

[32] MFF 1; *Opinion of the Committee of the Regions: The New Multiannual Financial Framework post-2013* (BUDG-V-002, 93rd Plenary Session); MFF 10; *Views on the Commission's Draft EU Budget: Excessively ambitious or overly timid?* EPIN Working Paper No. 32, January 2012

[33] *EU Financial Framework*, para. 170

[34] COM(2011)500

[35] Germany, Austria, the Netherlands, Sweden and the UK backed the call for €100bn to be cut. France, Finland and the Czech Republic supported an unspecified reduction (*Germany and the UK lead calls for EU spending cuts*, European Voice, 27 January 2012).

for 2013. However, the Government have consistently argued that 2011 payment levels form the most appropriate baseline for comparison.

37. Director-General Jouanjean told us that working in commitment terms offered greater certainty to the recipients of EU funds.[36] However, the Government took the opposite view, arguing that a budget negotiated in payment terms offered "clarity", representing "actual expenditure (and actual *need*)". They said that budgeting primarily in payments would help tackle the build-up of unspent commitments, which they estimated would exceed €245bn at the end of the current MFF.[37]

38. In general, the Government have called the Commission's proposals "unrealistic" and "incompatible with the tough decisions being taken" by Member States "at a time of ongoing economic fragility in Europe". They expressed specific concerns about the spending placed "off-MFF", and have called for the overall budget not to rise above 2013 payment levels in nominal terms.[38] If this approach were to be implemented, over the course of the MFF, the EU budget would decrease in real terms.

39. Others have called for greater ambition in the next MFF. The COR stated that the next MFF demanded "at least" the level of spending proposed and that austerity alone would not improve growth. Anne Jensen MEP argued that a euro spent at EU level at the very least simply replaced a euro spent at national level, and so did not genuinely increase "state expenditure". She suggested that spending should only be reduced if accompanied by policy reform. Professor Ackrill cautioned that a spending increase did "not represent fiscal profligacy", while Dr Nuñez Ferrer and Professor Tarschys suggested that it was far from certain that national fiscal consolidation demanded a reduction in the EU budget. They also warned that cuts were politically difficult in areas offering low EAV (such as the CAP), and so pressure for reductions was likely to affect new areas with higher EAV, running contrary to the UK's interests. The EESC argued that "the EU must not be the victim of the repercussions of the euro area crisis on the MFF", and that a "smart" budget increase was necessary. Professor Ackrill took an even stronger line and stated that the euro area crisis should have no fundamental impact on the EU budget at all.[39]

40. However, Marta Andreasen MEP argued that Member States were "unable to support" the proposed increases, and BNE suggested that commitment appropriations should be tightly limited to a basic ceiling, with reforms made annually to account for potential growth during the MFF. They also recommended that the amounts of commitment appropriations not spent during the current MFF should be factored into negotiations for the next MFF to ensure that allocations were genuinely necessary.[40]

41. **We previously recommended that the MFF be negotiated and prepared with the same approach and rigour as a business plan.[41] We remain of this view. In a time when restraint is necessary, action should be taken to ensure that the MFF accurately represents funding needs. We would favour greater focus on underspends from the current MFF to inform negotiations and help deliver restraint in the EU budget.**

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36 Q 60
37 Supplementary written evidence
38 Explanatory Memorandum 12475/11, paras. 41–42
39 *Opinion of the Committee of the Regions*, MFF 2, MFF 5, MFF 7, MFF 1
40 MFF 9, MFF 4
41 *EU Financial Framework*, para. 217

42. In our previous report, we concluded: "in the straitened economic circumstances being experienced by many Member States ... there should be no increase in the absolute quantum of the EU budget in real terms".[42] **The EU budget cannot be exempt from efforts to restrain public spending. We repeat our call for the next MFF not to grow in real terms, with spending to be reprioritised to focus on growth-enhancing areas such as infrastructure, as the EU's long-term prosperity depends on a balance of budgetary discipline and economic growth. It is incumbent upon Member States and the Commission to ensure that austerity does not reduce European Added Value at a time when it is most needed.**

43. The key Commission proposal setting out the overall envelope of the MFF was published in June 2011.[43] Since then, the euro area crisis has intensified, forecasts for future economic growth across the Union have been slashed,[44] and national austerity programmes have intensified. **We are disappointed that the euro area crisis has not stimulated more radical thinking about what policies, supported by what budgets, the EU needs to meet the immense challenges it now faces, particularly in achieving the very difficult task of stimulating sustainable economic growth while progressively reducing excessive budget deficits. We note with disappointment what Figure 1 clearly shows: the Commission's proposals are little more than cosmetically different from the pattern of expenditure in the current MFF, despite the radically changed economic circumstances in which the Union finds itself. In this report, we set out our proposals for a significant rebalancing of expenditure.**

44. Throughout our inquiry, we have noted the difficulty of comparing figures between and within the Commission's set of proposals, the Government's explanatory memoranda, and the evidence we have received. Figures are sometimes given in "current prices", in "real terms", in "commitments", or in "payments", and the parameters of the figures cited by witnesses, the Commission, and the Government are not always clear. Additionally, given the current economic situation within the EU, we have sometimes found it difficult to accept the percentages of GNI that are cited by the Commission, as the figures used as a basis for this have become out-of-date. Regrettably, these two points add considerable opacity to the process of scrutinising the EU budget. **We urge the Commission, the Government, and commentators to think carefully about the figures that are used in discussing this crucial piece of EU policy**. As far as has been possible, this Report specifies which figures are expressed in current or constant prices, or in real terms. We have endeavoured to be consistent throughout while also accurately reflecting the proposals as published by the Commission, and so have favoured the figures presented in each specific proposal (often given in current prices) over the figures given in 2011 prices in the Commission's Communication, *A Budget for Europe 2020*, published in July 2011.[45]

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[42] *EU Financial Framework*, para. 212

[43] COM(2011)500/I

[44] For example, in September 2011, the IMF forecast that in 2012 the GDP of the euro area countries would grow by 1.6 per cent in 2012. In January 2012, the IMF changed that forecast to a contraction of 0.5 per cent. The equivalent figures for the UK are 1.6 per cent growth (September 2011 forecast) and 0.6 per cent growth (January 2012 forecast). *International Monetary Fund, World Economic Outlook (Update)*, 24 January 2012.

[45] COM(2011)500/I

CHAPTER 3: COHESION

45. Cohesion policy, also known as regional policy, encompasses EU action to address economic and social imbalances, and to help less-favoured regions to compete within the single market. It falls under Heading 1 ("Smart and Inclusive Growth"). Cohesion funds form a substantial proportion of the Commission's MFF proposals for 2014–20: 36.7 per cent of the total. This compares to 35.7 per cent under the current MFF.[46]

46. Spending on cohesion policy is currently supported through the three Structural Funds, namely:

    (i) The European Regional Development Fund (ERDF), which finances direct aid for investment in companies, infrastructure, financial instruments, and technical assistance measures. The ERDF is allocated on a regional basis.

    (ii) The European Social Fund (ESF), which finances projects in the labour market that improve skills, social integration, and access to employment opportunities. The ESF is also allocated on a regional basis.

    (iii) The Cohesion Fund, which finances developments in transport networks, environmental projects, and energy and transport projects that offer environmental benefits. The Cohesion Fund is allocated at national level.[47]

47. Two other funds, although not strictly Structural Funds, pursue similar aims: the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF), proposed as a European Maritime and Fisheries Fund (EMFF) in the next MFF.

48. The overall scale of cohesion funding is determined by two factors: "objectives" and "eligibility". Although the Commission has proposed a new set of regulations for Structural Funds, and consequently cohesion policy is undergoing a process of reform, the Commission's proposals retain the established overarching objectives of "convergence", "competitiveness", and "European territorial cooperation". However, the Commission has proposed a change to eligibility to introduce "transition regions", an intermediate category between more-developed (competitiveness) regions and less-developed (convergence) regions.[48]

49. The Cohesion Fund will continue to support Member States with a GNI of less than 90 per cent of the EU-27 average.[49] The ERDF will be available to all three categories of regions, but transition and more-developed regions will be required to focus 80 per cent of their ERDF funds on energy efficiency,

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[46] See figures set out in Tables 1 and 2.

[47] The Cohesion Fund was created in 1994 to provide less-developed Member States with the financial assistance needed to accelerate economic convergence and enter the Monetary Union. Less-developed Member States were those with a GNI of less than 90 per cent of the community average. In 1994, this included Spain, Portugal, Ireland and Greece. The Cohesion Fund represented a form of incentive to those countries, tied to their participation in the Economic and Monetary Union. Assistance has, overall, been focused on physical infrastructure, human resources, and industrial development.

[48] Transition regions will be those where the GDP per capita is between 75 per cent and 90 per cent of the EU average, with convergence regions those with a GDP per capita below 75 per cent of the EU average, and competitiveness regions those with a GDP per capita above 90 per cent of the EU average. Similar, but more complex, arrangements are in place for the 2007–13 period.

[49] The use of both GDP and GNI in order to determine whether Member States or regions qualify for support can cause confusion, and should be closely noted.

renewable energy, the competitiveness of small and medium-sized enterprises (SMEs), and innovation.

50. The ESF will also be available to all three categories of regions, and the Commission has proposed that at least 25 per cent of overall cohesion funding must be committed to it. In more-developed regions, 52 per cent of cohesion funding should be devoted to the ESF, reducing to at least 40 per cent in transition regions and at least 25 per cent in less-developed regions. In each Member State, at least 20 per cent of total ESF resources should be allocated to promoting social inclusion and combating poverty. In the more-developed regions, 80 per cent of the allocation should be concentrated on a maximum of up to four investment priorities, reducing to 70 per cent in transition regions and 60 per cent in the less-developed regions.[50]

Purpose of cohesion funding

51. There are two divergent views regarding cohesion policy's aims: the first, that it should offer a pan-European development programme; the second, that it should function as an explicitly redistributive tool. Although the former is the Commission's traditional view,[51] its proposals target the largest share of cohesion funding at poorer regions and Member States. Nevertheless, the proposal for transition regions will allow regions in richer Member States to remain eligible for Structural Funds.

52. The Convention of Scottish Local Authorities (COSLA) and the COR supported the new category of transition region. The COSLA highlighted that this new category would allow poor regions in the UK to address tough economic challenges, and the Department for Business, Innovation and Skills has indicated that a number of UK regions, such as Devon and Cornwall, and South Yorkshire, would qualify as transition regions. The LGA was pleased that the UK would continue to benefit from major programmes; however, BNE favoured an overhaul of eligibility to make wealthier Member States responsible for their own poorer regions.[52]

53. **We support the proposed introduction of the transition region category, provided that this allows for more appropriate targeting of funding and leads to a more nuanced approach to meeting regional development needs.**

54. The Government previously told us that cohesion funding should be restricted to only poorer Member States after 2020, and they have reiterated their long-term aim of seeing richer Member States financing their own regional policy.[53] However, when giving evidence to our previous inquiry, Professor Iain Begg warned against taking this approach without strategic justification, simply in order to obtain a budgetary reduction.[54] In their report on structural funds, the Enterprise and Business Committee of the National Assembly for Wales (NAW) highlighted the €2bn received by Wales

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50 Article 4(3) of the proposed regulation (COM(2011)607). The possible investment priorities, of which there are 18 in total, are set out in Article 3(1), grouped under the four following broad headings: promoting employment and supporting labour mobility; investing in education, skills and life-long learning; promoting social inclusion and combating poverty; enhancing institutional capacity and efficient public administration.

51 See, for example, *An agenda for reformed cohesion policy: A place-based approach to meeting European Union challenges and expectations*, Fabrizio Barca, April 2009, available at: http://www.eurada.org/site/files/Regional per cent20development/Barca_report.pdf.

52 MFF 6, *Opinion of the Committee of the Regions*, Explanatory Memorandum 15243/11, MFF 10, MFF 4

53 EUFF 17, Explanatory Memorandum 15243/11

54 EUFF Q 17

from the existing Structural Funds, warning that the Government's proposed long-term restriction might prejudice growth in Wales.[55]

55. In our report *The Future of Regional Policy*, we argued that cohesion policy should be targeted at poorer Member States.[56] However, we also recognise the importance of funds such as the European Social Fund at a pan-European level.[57] **There are strong arguments for cohesion policy being targeted at poorer Member States, and for cohesion policy to operate at a pan-European level. However, the ultimate aim of EU cohesion policy is "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions", many of which will be in the poorer Member States.[58] We remain convinced that the European Social Fund is of benefit throughout the Union, but are of the view that other funds, such as the European Regional Development Fund, should be further targeted at poorer Member States with a view to withdrawing it from better-off Member States in the long term.[59]**

56. The Commission has been clear that it views cohesion policy as a primary vehicle for achieving Europe 2020 objectives.[60] Director-General Jouanjean argued that the "specific aims" of cohesion policy were nevertheless being maintained, and that there was only a "strong link" being drawn with Europe 2020.[61] Our previous inquiry noted the difficulty of turning cohesion policy into an all-purpose instrument for delivering Europe 2020, with many witnesses expressing concern about this approach.[62]

57. The EESC called cohesion policy "the symbol of a union of peoples" and opposed any reforms that would diminish this, and the National Council for Voluntary Organisations (NCVO) agreed that the budget should be based on solidarity with poor people and poor regions. Professor Bachtler drew our attention to a "tension" between treating cohesion policy as a "delivery agent" of Europe 2020 and its "traditional mission", "reducing regional disparities". He argued the former might distort the types of projects funded by Member States, incentivising those that offer visible results over those necessary for broader regional development. However, the Government stated that opportunities for growth would be greater in less-developed regions, and that targeting Europe 2020 would still mean progress in reducing regional disparities.[63]

58. **We recognise the importance of the Europe 2020 objectives, many of which dovetail with the traditional mission of cohesion policy. However, cohesion policy is not merely a delivery tool for Europe 2020. We caution against the core aim of cohesion policy being undermined by an unremitting focus on meeting the Europe 2020 objectives. The distinct identity and fundamental objective of**

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55 *Draft legislative proposals for EU structural funds 2014–20*, February 2012, para. 11
56 19th Report, Session 2007–08, HL Paper 140
57 Our report on the ESF (9th Report (2009–10): *Making it work: the European Social Fund* (HL Paper 92)) recommended that the ESF should be available throughout the EU. Witnesses to our previous inquiry reflected these two positions (*EU Financial Framework*, paras. 96–98).
58 Article 174 TFEU
59 *EU Financial Framework*, para. 102
60 SEC(2010)1348
61 Supplementary written evidence
62 *EU Financial Framework*, paras 110–111
63 MFF 1, MFF 3, Q 42, Q 83

cohesion, enshrined in the Treaty as a permanent core objective of the Union, must be safeguarded.

59. **As an expression of EU solidarity, cohesion policy is one of the most important elements of the MFF when it comes to improving public awareness of EU action, an important aspect of the MFF that needs to be maintained.**[64]

Cohesion funds in difficult economic times

60. The Member States that have been most affected by the on-going euro area crisis have traditionally received large tranches of funding from cohesion funds.[65] In the coming years, these countries might have an even stronger need for the assistance that EU funds can provide. In our inquiry, one of the key questions has been whether a reduction in cohesion funding would be justified, or whether spending on cohesion policy should be encouraged because of its potential to boost economic growth.

61. The Commission was keen to retain cohesion as a well-funded policy area, but noted that the funding for cohesion policy, along with funding for the CAP, had been held level in cash terms, giving "substantial savings",[66] while efforts have been made to increase coordination between institutions, emphasise conditionality and performance, and simplify the delivery system (see paragraph 66 below on the structure of cohesion funding). Nevertheless, the Government have argued that the cohesion budget "should fall significantly" from the proposed levels.[67]

62. The LGA expressed reservations about cohesion receiving less as a share of the proposed budget, suggesting that the inclusion in the cohesion budget of €10bn earmarked for Connecting Europe was an attempt to "mask" a cut in structural funds. The COR also highlighted this point. Professor Bachtler argued that cohesion policy could potentially enhance growth, but conceded that there had been great debate about how effective it has been in boosting growth. He explained that effectiveness depended on both the level of strategic coherence in targeting development needs (see paragraph 66 below on the structure of cohesion funding) and the administrative capacity available for selecting projects and ensuring their proper implementation.[68]

63. Professor Bachtler also emphasised the importance of cohesion policy as an instrument for regional development at a time of austerity, when national budgets for regional development might be cut back. However, in our previous inquiry, witnesses were divided on whether it was appropriate for EU funds to be used to "counterbalance" austerity measures. Although Arlene McCarthy MEP was in favour of this, Anne Jensen MEP and the Greater London Authority (GLA) were opposed, with the GLA saying that using cohesion funds to substitute for national expenditure violated the principle of EAV.[69]

64. **The economic context of this MFF has strengthened our belief that cohesion policy should play a more defined role in helping Member**

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64 *EU Financial Framework*, para. 136

65 This is particularly true of the Cohesion Fund and the ERDF. See footnote 47 above on the Cohesion Fund.

66 Q 50

67 Explanatory Memorandum 12475/11

68 MFF 10, *Opinion of the Committee of the Regions*, Q 40

69 Q 40, EUFF 11, EUFF 13, EUFF 15. The Committee reached its own conclusion at *EU Financial Framework*, para. 104.

States in financial difficulties to address structural weaknesses and competitiveness challenges. There is a role for cohesion policy as an effective and necessary counterbalance to the effects of austerity measures.[70]

65. **We support the overall envelope proposed for cohesion funding. Cohesion policy has an important role to play in improving growth, and in the context of a rigid seven-year framework, it is vital that funding remains available to meet changes in the economic climate.**

Structure of cohesion funding

66. As mentioned previously, there is still debate about cohesion policy's role in enhancing growth, particularly with regard to Member States' absorption capacity (their ability to put the money to productive use).[71] To address some of the criticisms of cohesion policy, the Commission is attempting to introduce a number of strategic changes, which Professor Bachtler summarised as "more concentration, more co-ordination and greater results orientation".[72] The Commission also proposed the increased use of innovative financial instruments (IFIs) in this area, which we discuss in Chapter 8.

67. The Commission's proposed Common Strategic Framework (CSF) aims to improve synergies between the Structural Funds, the EMFF, and the EAFRD, and to translate the Europe 2020 objectives into investment priorities.[73] The CSF will involve the "thematic concentration" of funds, that is to say, a targeting of funds on specific chosen objectives.[74] Thematic concentration will be defined at EU level and set out in Partnership Contracts with Member States, with subsequent Operational Programmes for each Fund at the regional level.[75] The Government have welcomed the additional flexibility that this approach would offer Member States to allow them to target growth.[76]

68. The NCVO and LGA argued that common rules offer a beneficial strategic approach, although they noted that it is not yet clear how the administrative proposals will translate into on-the-ground streamlining and improvements. The COR expressed strong support for the CSF, and the National Housing Federation (NHF) called the CSF a "great opportunity" to ensure that deprivation issues can be addressed "in a holistic way". However, the NHF also stressed the importance of co-ordinating the various governing bodies that currently exist. The Enterprise and Business Committee of NAW queried how different the new performance framework for capturing outcomes would look, and expressed uncertainty about how a more complex monitoring framework would be funded, but supported the move to generate development strategies based on a multi-fund approach.[77]

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70 *EU Financial Framework*, para. 106

71 COM(2011)500, p.12

72 Q 39

73 COM(2011)615 and SWD(2012)61

74 These include strengthening research, technological development, and innovation; protecting the environment and promoting resource efficiency; and investing in education, skills and lifelong learning. A full list is set out in Article 9 of the proposed Regulation (COM(2011)615).

75 COM(2011)615

76 Q 82

77 MFF 3; MFF 10; *Opinion of the Committee of the Regions*; Letter from the National Housing Federation, 9 December 2011; *Draft legislative proposals*

69. **The Commission's proposals represent a much-needed attempt to improve the impact and effectiveness of EU funds and to encourage a more strategic approach. We support the simplifications and improved synergies offered by the proposed Common Strategic Framework.**

70. Professor Bachtler expressed scepticism about the "top-down, prescriptive" approach underlying Partnership Contracts, and the Welsh Government has also called attention to this as a potential problem with the CSF. The Enterprise and Business Committee of NAW raised concern about a "move towards greater centralisation of control at a UK level" and called for a "specific Welsh chapter" within the UK's Partnership Contract. The NHF welcomed the proposal of a Partnership Contract that would involve key stakeholders and NGOs.[78]

71. The Government have welcomed the "principle of partnership", but emphasised the importance of reflecting national rules, practices, and arrangements. They told us that they will "look carefully" at duplication within the Partnership Contract and seek to remove "excessively burdensome requirements". They stated that, although the management of structural funds was devolved, a Partnership Contract needed to be done at UK-level in order to reflect the connection to National Reform Programmes, country-specific recommendations, and integrated guidelines for employment.[79]

72. **We recognise the case for thematic concentration on a smaller number of priorities, but remain to be convinced that the Commission's proposals ensure sufficient flexibility for regions and local authorities to focus investment on their own development needs. We urge the Government to ensure that the UK's Partnership Contract retains sufficient flexibility to allow further tailoring through Operational Programmes at the regional level.**

Conditionality

73. The Commission's proposals also introduce conditionalities that would place more restrictions on funding allocations. These could involve *ex ante*, *ex post*, or macroeconomic measures, or any combination thereof.

74. The Government have expressed support for *ex ante* conditionality, such as the need for compliance with EU regulations prior to funding being provided, calling it potentially "very sensible". The Centre for European Policy Studies (CEPS) expressed support for *ex ante* conditionality over *ex post* auditing mechanisms. The LGA and COR both highlighted that conditionalities should be agreed with the local and regional bodies responsible for delivering on targets, in order to ensure fairness within the conditionality system, and to improve the effectiveness of targets.[80]

75. Macroeconomic conditionality would involve tying the provision of cohesion funds to the macroeconomic circumstances of the Member States. For example, EU funds might be withdrawn from Member States that breach the Stability and Growth Pact.[81] Witnesses to our previous inquiry were divided

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78 Q 45; *Draft legislative proposals*, para. 16; Letter from the National Housing Federation

79 Explanatory Memorandum 15243/11

80 Q 102; Explanatory Memorandum 15243/11; *Investing where it matters: An EU Budget for Long-Term Growth*, CEPS Task Force Report, 9 February 2012; MFF 10; *Opinion of the Committee of the Regions*

81 COM(2011)500. Our previous report (12th Report (2010–12): *The Future of Economic Governance in the EU* (HL Paper 124)) addressed the related question of whether sanctions of this type should be used on countries outside the euro area.

on this issue.[82] The LGA argued that macroeconomic conditionality might unfairly disadvantage local or regional projects on the basis of decisions taken by national governments, and the COR expressed "strong opposition" to macroeconomic conditionality on these grounds. The Government previously advanced a "principled objection" to macroeconomic conditionality, which they repeated in their most recent evidence.[83]

76. **We endorse the Commission's proposal to enhance the effectiveness of cohesion policy by proposing a series of conditions to the granting and use of cohesion funding. However, we have concerns about the appropriateness of macroeconomic conditionality tools since withdrawing EU funding from an ailing economy might in some circumstances only make matters worse.**

77. The Commission has also proposed the introduction of a performance reserve. Five per cent of the cohesion budget will be set aside and allocated during a mid-term review to Member States and regions whose programmes have met their targets. In general, Member States do not favour the concept of a performance reserve because it requires them to compete for returns from the EU budget.

78. The Government previously expressed scepticism about whether the performance reserve would reward wealthier Member States at the expense of poorer ones, and although the Commission has addressed some of their concerns on this matter, the Government have also argued that the proposed final review in 2019 will be too late for projects to see any substantial benefit from redistributed funds.[84]

79. During our previous inquiry, several witnesses were sceptical about a performance reserve, and Arlene McCarthy MEP raised concern about it leading to a decrease in the amount of funding available.[85] The COR has argued that a performance reserve risks "a lose-lose scenario", and that expenditure should instead be allocated to "preventative measures" to build institutional capacity. The Enterprise and Business Committee of NAW queried how the performance reserve would be implemented in the UK and how money not allocated during the mid-term review would be treated, that is whether it would return to the EU budget or be redistributed as cohesion funding to those Member States whose programmes had performed well.[86]

80. **We remain convinced that a performance reserve could be beneficial, if implemented correctly. However, we agree that the 2019 date for allocation of funding is too late to have any meaningful impact, and call for the final review and allocation of funds to be brought forward. We call on the Government to ensure that there is clarity and understanding at national, regional, and local level regarding the impact of a performance reserve.**

81. **We support a combination of *ex ante* conditionality and a performance reserve designed and implemented at national level that incorporates targets focused on the objectives of the funding and relevant to the context of the programme.**

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82 Professor Begg (EUFF Q 23) was supportive, but the COSLA (EUFF 9) was not.

83 MFF 10, *Opinion of the Committee of the Regions* , Explanatory Memorandum 16336/10

84 Explanatory Memorandum 15243/11, para. 34

85 EUFF 9, EUFF Q 177, EUFF 11

86 *Opinion of the Committee of the Regions*, *Draft legislative proposals*

CHAPTER 4: AGRICULTURE, FISHERIES, CLIMATE CHANGE AND THE ENVIRONMENT

82. The Commission's proposals on the Common Agricultural Policy (CAP), the Common Fisheries Policy (CFP), climate change and the environment fall under Heading 2 of the MFF, "Sustainable growth". They broadly retain the current structure of this Heading, although the plans include the expansion of the European Fisheries Fund into a European Maritime and Fisheries Fund (EMFF), and the creation of a specific Climate Action Sub-Programme within an enlarged LIFE instrument.[87] Under the current MFF there is no climate change fund, and money under the Rural Development Fund has been spent on new challenges like climate change.

83. The Commission has told us its proposals impose a nominal freeze on the CAP.[88] The proportion of resources directed to Heading 2 would fall to 37 per cent, compared with 42.3 per cent currently.[89] However, these figures do not account for environment and climate change proposals integrated with other MFF funding streams. Elsewhere, the Commission has also allocated:[90]

    (i) €5.1bn for research and innovation on food security, the bio-economy and sustainable agriculture within Horizon 2020;

    (ii) €2.5bn for food safety in Heading 3;

    (iii) €2.8bn for food support for the most deprived persons within the European Social Fund;[91]

    (iv) €3.9bn for a new reserve for crises in the agriculture sector, to be placed 'off-MFF'; and

    (v) Up to €2.8bn for the "off-MFF" European Globalisation Fund, which has been extended to include farmers affected by new trade agreements.[92]

Common Agricultural Policy and rural development

84. In 2012, the total cost of the CAP will be around €60bn in commitment appropriations. Of this, €44bn (73 per cent) funds direct payments to farmers/market measures (Pillar I), and €16bn (27 per cent) funds rural development (Pillar II), fisheries, environmental measures, and other miscellaneous items, such as Agencies.

85. Director-General Jouanjean stated that "for the Commission, the CAP remains a strategic policy", and noted that under the Commission's proposals "agriculture expenditure will have been frozen for a period of 14 years" by 2020.[93] The Government have told us that, once "off-budget"

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[87] See paragraph 112.

[88] MFF 8

[89] See the figures for Heading 2 in Tables 1 and 2.

[90] Figures expressed in the Commission's proposals in current prices (COM(2011)628).

[91] The Committee has twice recommended a Reasoned Opinion on the question of supplying food to deprived persons: *Subsidiarity assessment: distribution of food products to deprived persons* (2nd Report (2010–12), HL Paper 44 and 23rd Report (2010–12), HL Paper 217). The Government have stated that they are "not convinced" that this programme should sit within the ESF, and they argued that the aims of the programme were best achieved by action at national, rather than EU level (Explanatory Memorandum 15243/11).

[92] Proposed "off-MFF" expenditure is examined in Chapter 7.

[93] Q 64

funds were taken into account, there would be a real-terms decline in agricultural spending over the next MFF.[94]

86. The Commission has argued that the CAP has four diverse aims:
   (i) To promote the competitiveness of the EU agricultural sector;
   (ii) To ensure an adequate and secure food supply;
   (iii) To preserve the environment and countryside; and
   (iv) To do so while providing a fair standard of living for the agricultural community.[95]

87. The EESC suggested that one of the CAP's main tasks was to "upgrade the role of farmers", and also highlighted the importance of high-quality food production within the EU.[96] However, the EU agricultural sector is facing significant challenges, such as farmers' costs rising more quickly than agriculture prices, and the climate change and environmental challenges that are facing the whole region.

88. The Commission's proposals set out a moderate reform that maintains the current two-pillar CAP structure, with Pillar I funding production support (direct payments to farmers and market management measures), and Pillar II funding rural development. Much of the criticism of Pillar I surrounds its environmental credentials and the way that direct payments are distributed.[97] To address these concerns, some of the Commission's key proposals for Pillar I include:
   (i) A compulsory basic payment;
   (ii) A capping of the basic payment at €300,000 after salaries have been deducted;
   (iii) Restricting payments above €5,000 to active farmers[98] only;
   (iv) A new small-farmer payment scheme; and
   (v) A compulsory greening payment, constituting 30 per cent of the total payment received, which requires various agricultural practices deemed beneficial for the climate and the environment (see paragraph 98).

89. In addition, the Pillar I proposals include flexibility mechanisms that would allow for transfers between the direct payment and rural development budgets,[99] and a mechanism for a portion of the direct payment budget (10 per cent) to be used to support a specific commodity in regions that are facing particular difficulties.

90. Through its proposed reforms, the Commission aims to provide better synergies between Pillars I and II, as well as improved coordination with other, non-agricultural EU Funds through the Common Strategic Framework (see Chapter 3). The Commission aims to achieve this through

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[94] Letter from Jim Paice MP, 23 February 2012

[95] COM(2011)500/II

[96] MFF 1

[97] For example, the average direct payment per hectare varies widely between Member States, so the direct payment in the Netherlands in 2013 will be more than five times that in Latvia (COM(2011)500/II).

[98] Direct payments should amount to at least 5 per cent of non-agricultural income or farmers should carry out the minimum agricultural activity established by Member States

[99] Member States may transfer up to 10 per cent of their direct payment budget to their rural development budget. 12 Member States, including the UK, may transfer 5 per cent of their rural development budget to their direct payment budget.

measures such as simplified grant mechanisms and a move toward e-governance in rural development policy.[100]

91. In our last inquiry, we heard consistent support for Pillar II, the EAFRD.[101] In the Commission's new proposals, Pillar II remains focused on competitiveness, innovation and environmental sustainability, and will include a new Risk Management Toolkit in recognition of the unforeseeable and significant risks posed to the sector by adverse climatic events, animal or plant diseases, and pest infestation. In oral evidence, officials from HM Treasury told us that risk management was "exceedingly important" given recent price spikes in international markets and "the backdrop of climate change".[102]

92. **We welcome the Risk Management Toolkit and the proposal for making available financial support to cover premiums for crop, animal and plant insurance against economic losses.**

93. However, the current proposals include a range of crisis and risk management measures, including the "off-MFF" reserve for crises in the agricultural sector and the extension of the European Globalisation Adjustment Fund (EGF) to support the sector as it adapts to the effects of globalisation. The Government have told us that these measures target distinct circumstances; that is to say, the new Risk Management Toolkit involves before-the-event action, while the funding available under the "off-MFF" globalisation fund is "almost … compensation for policy reform elsewhere", such as international trade agreements.[103]

94. **We recognise that the risk management tools proposed may be intended to serve different purposes. However, we urge the Government to look closely at the range of measures proposed as offering possible scope for budget savings in this area.**

95. The fostering of knowledge transfer and innovation in agriculture, forestry and rural areas is a particular priority within Pillar II, with a reference to strengthening the links between agriculture and forestry and research and innovation, and we previously concluded that Pillar II was "vital" to increasing agricultural innovation.[104] To help meet this need, the Commission has proposed a new European Innovation Partnership (EIP) for agricultural productivity and sustainability. The core of the EIP will be operational groups made up of farmers, researchers, advisors and businesses. In our report on *Innovation in EU Agriculture*, we supported the idea of such an EIP.[105]

96. **We welcome the prominence given to the issues of knowledge transfer between research and agriculture in Pillar II. We also welcome the inclusion of a new article on cooperation and the establishment of the European Innovation Partnership, provided that the partnership and its operations are founded on effective, action-based cooperation.**

97. Another stated goal of the Commission's proposed changes to the CAP is improving the environmental focus of both Pillars. The Government pointed out that Pillar II was the more effective tool for delivering environmental

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100 A consolidated list of simplification measures is set out in Annex 3, COM(2012)42.
101 *EU Financial Framework*, para. 83
102 Q 92
103 Q 93
104 *EU Financial Framework*, para. 88
105 19th Report (2010–12): *Innovation in EU Agriculture* (HL Paper 171)

benefits, as it was more flexible and responsive to local needs.[106] However, it remains voluntary under the Commission's current proposals. Consequently, the Commission has tried to strengthen the environmental sustainability of Pillar I via greening measures.

98. The Commission has proposed that, from 2014, 30 per cent of direct payments should be contingent on compliance with a range of environmentally sound practices, such as increasing soil organic matter or reducing emissions from the use of fertiliser and manure. The scope of the Farm Advisory System will be extended to cover greening, as well as various actions related to climate change mitigation and adaptation, protection of diversity, and innovation.[107]

99. We received mixed evidence on greening during our previous inquiry. Many witnesses supported the proposal, but others opposed it as making the CAP more anti-competitive or being used to "justify" what was likely to remain a low-EAV CAP proposal overall.[108] In evidence to this inquiry, Professor Ackrill cautioned that the incorporation of environmental and other dimensions to Pillar I increased complexity, and that the Commission's proposals extended reverse modulation,[109] working "against the broad policy thrust" of the MFF proposals. However, the LGA fully supported greening.[110]

100. **We are sceptical that the proposals for CAP reform will deliver the intended environmental benefits. Pillar I payments should be made in return for delivery of public goods, responding to climate change, and protecting biodiversity. The "one size fits all" approach of the Pillar I greening proposal is too inflexible. We would prefer to see greening measures identified at national or regional level, building on the cross-compliance requirements and recognising substantial efforts already made by farmers.**

101. All the evidence received by the Committee during its previous inquiry pointed to the need for some radical reform of the CAP to bring greater EAV and target broader EU policy objectives, and the situation has not changed during this follow-up inquiry.[111]

102. The EESC argued that reform of the CAP was essential but must avoid renationalising or abandoning the core principles of solidarity and quality of food production, and Anne Jensen MEP and BNE agreed that EU-level funding was preferable to subsidies at national level. BNE also argued for increased provision of direct payments to Central/East European states.[112] Professor Ackrill raised the issue of Pillar I remaining the conduit for the majority of funding, as it was less well suited to the Europe 2020 goals.[113]

103. The Government have repeated their aim to see the CAP budget cut significantly during negotiations. They argued that direct payments under

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[106] Q 87

[107] COM(2011)628

[108] *EU Financial Framework*, paras. 81–82.

[109] Reverse modulation refers to Member States' option to move 10 per cent of funds from rural development (Pillar II) to direct payments (Pillar I). See also footnote 99 and paragraph 89 above.

[110] MFF 5, MFF 10

[111] See EUFF 10, EUFF 18, *EU Financial Framework*, paras. 77–81

[112] France and Spain, two of the biggest recipients of CAP payments, oppose the Commission's intention to gradually phase in higher payments to newer Member States (*Spain joins France in bid to ring fence CAP budget*, Euractiv, 15 February 2012).

[113] MFF 1, MFF 2, MFF 4, MFF 5

Pillar I offer little value for money, and could undermine processes whereby European agriculture could improve its efficiency.[114] They have also raised concern that the simplification proposals made by the Commission would deliver "only modest, if any", gains, while other aspects of the Commission's proposals, such as greening, could significantly increase the complexity of the CAP.[115] CEPS suggested that the CAP's "suboptimal" policies rendered the Commission's proposed budget "unjustified" due to a lack of EAV and public goods being offered.[116]

104. **We reiterate our view that evolutionary change of the CAP is more likely to succeed than any radical approach. However, we are disappointed that the Commission's proposals largely represent the status quo in terms of agricultural spending.**

105. **Greater efforts must be made to reduce the CAP budget, and to begin phasing out direct payments and reorientating the CAP towards actions that offer higher European Added Value and greater value for money. It is clear to us that, in the light of current economic challenges, new approaches are required. We strongly regret that the opportunity appears to have been missed to introduce them. The risk of even greater disruption to European economies cannot be ignored. We urge the Government to take into account the consequent need for flexibility while negotiating the new MFF.**

106. We previously recommended that the CAP's share of the MFF should be reduced and transferred towards spending on research and development.[117] **While the Commission's proposal to more than double funding for investment in agricultural research is welcome, the failure to make any substantial reduction in the overall CAP budget is disappointing. We urge the Government to argue for greater cuts to Pillar I and more ambitious transfer of funds to Pillar II.**

Fisheries and maritime policy

107. Under the Commission's fisheries and maritime policy, funding is made available for: the European Maritime and Fisheries Fund (EMFF), the EU's Sustainable Fishing Agreements with third countries, and compulsory EU contributions to Regional Fisheries Management Organisations. The Commission has proposed a total budget of €7.5bn for fisheries and maritime policy, with €6.6bn allocated to the EMFF.[118] The current EFF has a budget of €4.3bn over the course of 2007–13; the Commission argues the increased budget is justified in part due to the inclusion of the Integrated Maritime Policy (IMP) in the EMFF.

108. The EMFF is intended to support the proposed reform of the Common Fisheries Policy (CFP). It aims to: promote sustainable and competitive fisheries and aquaculture; foster the development and implementation of the IMP; promote a balanced and inclusive territorial development of fisheries areas; and foster the development of the CFP. It will support the implementation of conservation measures under the CFP and innovation linked to the conservation of biological resources. The IMP incorporates a

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[114] Q 84–86
[115] Explanatory memorandum 6708/12
[116] *An EU Budget for Long Term Growth*
[117] *EU Financial Framework*, para. 85
[118] Figures expressed in the Commission's proposals in current prices (COM(2011)804).

number of crosscutting measures, such as maritime surveillance and Marine Spatial Planning.

109. **A number of measures within the European Maritime and Fisheries Fund support welcome reform of the Common Fisheries Policy. However, other aspects appear tangential, such as support for inland fisheries and boosting aquaculture. We are concerned that the Maritime and Fisheries Fund is too broad and insufficiently targets funds towards key conservation objectives, such as discard reduction. The instrument should be narrowed to make clear that money will not be spent on infrastructure and aquaculture at the expense of conservation.**

110. **We consider that the increased budget for the Maritime and Fisheries Fund could be justified if the appropriate focus is attained. It is important that all Member States take seriously the need to reform the sector, and recognise that diversification away from fisheries will be necessary in some instances.**

111. **We support the provision of limited funding to support better transnational cooperation between sectors reliant on the maritime environment but consider that the Commission's current proposal is over-generous. Further analysis should be carried out to identify whether the entire proposed budget is necessary.**

Climate change and the environment

112. The LIFE Programme is the financial instrument dedicated to supporting environmental projects throughout the EU.[119] Its general objective is to contribute to the implementation, updating and development of EU environmental policy and legislation by co-financing pilot or demonstration projects that offer EAV. The programme is intended to serve as a catalyst for promoting implementation and integration of environmental and climate objectives in other policies and Member State best practice.

113. The current LIFE programme has a financial allocation of €2.1bn. The Commission proposes to allocate €3.6bn to the programme in the next MFF, with €2.7bn allocated to the Sub-Programme for Environment, and the remaining €0.9bn to the new Sub-Programme for Climate Action.[120]

114. Each sub-programme targets three priority areas. For the Environment sub-programme, these are: environment and resource efficiency; biodiversity; and environmental governance and information. For the Climate Action sub-programme, these are: climate change mitigation; climate change adaptation; and climate governance and information. These priority areas will include the development and testing of policy approaches and awareness.

115. The Government welcomed the continuation of the LIFE programme and stated that it had an important role to play in complementing the mainstreaming approach on environmental and climate issues. However, they opposed the suggested budgetary increase in line with their "top priority" of budgetary restraint, and called for LIFE to receive a proportionately larger share of a smaller budget.[121]

116. **We support the distinct Sub-Programme for Climate Action and consider that there is a strong case for an increased budget for the**

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119 COM(2011)874

120 Figures expressed in the Commission's proposals in current prices (COM(2011)874).

121 Explanatory Memorandum 18627/11 and Letter from Richard Benyon MP, 31 January 2012

LIFE programme in order to address the challenges of biodiversity loss and climate change.

117. **We previously recommended that climate change policies be mainstreamed throughout EU funding instruments alongside a fund devoted to climate-change projects of EU interest. We support the Commission's proposals, which reflect this approach. However, we also observed that, for mainstreaming to work effectively, the Climate Action Commissioner would require a strategic overview across policy areas. We are disappointed that no such mechanism has been proposed. We repeat this recommendation in the interests of promoting strategic use of funds in targeting key climate change objectives, and urge the Government to advocate this approach.**

CHAPTER 5: INFRASTRUCTURE AND INNOVATION

118. This chapter considers the Commission's proposals for cross-border infrastructure, a Common Strategic Framework in research and innovation, and for providing support to SMEs, which aim to promote what the Commission has called "smart growth".

Connecting Europe

119. The Connecting Europe facility (CEF) draws together energy, transport and telecommunications infrastructure into a regime that is intended to be coherent and transparent, and more attractive to investors.

120. The CEF will see a significant increase in financial provision, resulting in a total budget of €50bn: €10bn from the cohesion budget, and €40bn specifically set aside in the CEF budget line.[122] Even excluding the €10bn earmarked for the CEF within cohesion funding, the Commission's proposals result in a budget four times that of the current equivalent programmes. The Commission further proposes to boost the impact of EU spending by attracting private-sector investment through the use of equity and risk-sharing instruments, and project bonds.

121. The Government supported the aim to simplify and rationalise the process surrounding infrastructure development, and have stated that the proposal can add EAV, but called the proposed budget "far too ambitious" at a time when they are calling for a real-terms freeze across the MFF.[123] Mark Hoban MP, the Financial Secretary to the Treasury, has stated: "We will work with our allies to cut this programme down to size, delivering fiscal restraint and value for money".[124]

122. In contrast, Director-General Jouanjean argued that the EU budget was "crucial in triggering investments needed for realising modern, cross-border networks at EU level".[125]

123. The CEPS suggested that, compared with the size of investment the CEF was expected to support, the budget line "seemed to fall short". The EESC supported the EU budget investing more in public goods, such as the CEF. BNE also advocated support for the programme, as EU-level financing would be most effective for cross-border infrastructure projects, due to national budget pressures.[126]

124. **We appreciate the importance of EU-level action in these areas; however, the proposed budget will be difficult to accommodate within the MFF without radical reallocation of funds away from the CAP. We therefore call for a strategic review of the Connecting Europe facility, with European Added Value as the guiding principle, but noting that public investment should only be deployed where the market has failed to act.**

125. We heard from the Department for Culture, Media and Sport that the current MFF contained no projects or proposals in relation to telecommunications, in contrast with transport and energy, and that there was "strong and ever greater emerging evidence that communications

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[122] Figures expressed in the Commission's proposals in current prices (COM(2011)676).
[123] Explanatory Memorandum 16499/11, Q 33
[124] 19 January 2012, HC Deb col. 914
[125] Supplementary written evidence
[126] *An EU Budget for Long Term Growth*, MFF 1, MFF 4

infrastructure underpinned growth and productivity". The Department for Transport also told us that the Government could "not see any real justification" for transport to be singled out to receive the greater proportion of the CEF.[127]

126. **The balance between transport, energy and telecommunications spending should be a key question within a strategic review of the Connecting Europe facility. There are pressing needs across all sectors, and a focus on transport in the past does not necessarily demand the same today. We urge a greater focus on energy and telecommunications over the course of the next MFF, although there should always be a preference for direct private funding rather than subsidy from the EU budget.**

127. The Commission's proposals for the Connecting Europe facility are intended to combine market-based instruments and EU direct support. The Commission hopes to see high leverage effects of innovative financial instruments being used as part of Connecting Europe,[128] which they argue will "contribute significantly" to mitigating risks and facilitating access to capital when coupled with the successful absorption of direct EU funding.[129]

128. **We support the Commission's aim to increase private-sector involvement to leverage this investment. However, we would advocate a focus on substituting, rather than supplementing, EU funding where appropriate. As with all jointly funded projects, risks and rewards must also be properly apportioned between the public and private sectors.**

129. Both the transport and energy guidelines of the CEF use the concept of "core corridors": coordinating mechanisms that seek to facilitate implementation by ensuring projects with the highest EU added value are given priority. The Commission's guidelines establish criteria against which to judge possible projects, and the Commission would thus have a central role in managing the Connecting Europe facility.

130. The Government conceded that this was necessary to ensure that European, rather than national, interests were at the forefront of developments. However, they were keen to ensure that Member States were fully involved in project choices and processes.[130] The COR emphasised that local and regional authorities needed "significant involvement" in supervising and managing infrastructure projects, which had not been accounted for in the proposed management arrangements.[131]

131. **We accept the Commission's role regarding the oversight and coordination of infrastructure development. However, as the Connecting Europe proposal develops, it will be essential that national competences are fully respected.**

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[127] Q 5, Q 20, Q 7
[128] See Chapter 8 for more information on IFIs.
[129] COM(2011)500/II
[130] Explanatory Memorandum 16499/11, Q 17, Q 23
[131] *Opinion of Committee of the Regions*

Horizon 2020

132. Horizon 2020 is the financial instrument that aims to implement the Innovation Union, one of the seven Europe 2020 flagship initiatives.[132] Europe 2020 calls on Member States to spend the equivalent of 3 per cent of their annual GDP on research and development in order to keep pace with the United States and China. Across the EU, the private sector continues to provide the biggest proportion of spending in this area, and over the course of the next MFF, the Commission aims to foster the conditions that will encourage further private-sector investment in order to boost economic growth and the EU's competitiveness.

133. Horizon 2020 will supersede the Seventh Framework Programmes for Research and Technical Development (FP7)[133] while incorporating funding currently provided through the Competitiveness and Innovation Framework Programme (CIP) and the European Institute of Innovation and Technology (EIT). The proposed budget of €80bn over the next MFF represents a 46 per cent increase over comparable funding in the current MFF.[134]

134. We previously noted concerns regarding the structure of FP7, the bureaucracy surrounding grant arrangements, and the potential for fragmentation.[135] Horizon 2020 aims to establish a single set of rules, a single point of access for participants, and fewer controls and audits. By integrating elements of the CIP, the programme aims to ensure that action is directed at efforts throughout the innovation cycle, from early research through to the marketplace. It would also give a more prominent role to the European Research Council.

135. **We are broadly supportive of the structure and aims of the Horizon 2020 proposal. If implemented correctly, Horizon 2020 could significantly reduce bureaucracy in the research field and help to foster innovation amongst SMEs. Furthermore, the enhanced role for the European Research Council will keep the focus on European Added Value and research-led excellence, which must be at the core of any EU research programme.**

136. We previously recommended that funding in this area should be increased relative to FP7 and the MFF as a whole.[136] We have seen general support for increased funding in written evidence to this current inquiry, and in oral evidence to our Sub-Committee on Social Policies' inquiry into higher education.[137] Most witnesses to our previous inquiry also agreed that the budget for FP7's successor programme should be increased, and the Government told us that this was desirable provided that the overall envelope of the MFF did not increase.[138] However, in relation to the Commission's latest proposals, the Government have advocated greater focus within Horizon 2020, and in oral evidence HM Treasury officials suggested that

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[132] See Box 1 above.

[133] The Single Market Act in 1986 stipulated that multiannual framework programmes should be adopted to determine the main objectives and priorities for R&D.

[134] Figures expressed in the Commission's proposals in constant 2011 prices (SEC(2011)1427 final).

[135] *EU Financial Framework*, para. 39

[136] *EU Financial Framework*, para. 41

[137] Anne Jenson MEP; Business for New Europe; 1994 Group; Russell Group; Engineering Professors' Council; UK Bologna Experts; UK Higher Education International Unit; David Willetts MP Q 90 (Sub-Committee G)

[138] *EU Financial Framework*, para. 37

outcomes could be improved even without an increased budget in this area.[139]

137. The Government noted that the UK had "done well out of FP7", but that a higher share of its funding went to higher education over industry, compared with other Member States. The Minister for Universities and Science, David Willetts MP, noted that one factor in this was that industry was discouraged from bidding for funds due to bureaucracy and the complexity of the procedure.[140] The EESC called for a more ambitious policy that linked entrepreneurship and the removal of barriers between national networks.[141]

138. **We do not agree with the Government that the proposed level of spending is "unrealistic"; however, we agree that Horizon 2020 should receive a larger proportion of a smaller budget. Spending must be reprioritised to focus on growth-enhancing areas where EU funding can add most value, and spending on research clearly meets this description. We call strongly for increased budgetary provision on innovation and research to be supported at the expense of other areas, such as the CAP. We also urge the Government to do more to promote and facilitate industry's access to Horizon 2020 funds.**

139. During our inquiry, we also considered whether there was a need for greater consolidation in the MFF, specifically in regard to the €60bn of cohesion funding that is earmarked for innovation. The COSLA called this a "clear and as yet unresolved demarcation issue".[142] The Government have noted that it would be possible for efforts to achieve greater consolidation and alignment to be over-extended; for example, they would not support greater consolidation between Horizon 2020 and structural funds.[143] While Horizon 2020 aims to fund excellence, cohesion funding aims to boost capacity that might eventually lead to excellence.

140. **The interim review of the Seventh Framework Programmes for Research and Technical Development noted the relatively low success rates of some lower-income Member States when bidding for EU research funds, and highlighted the role of cohesion policy in raising research and innovation capacity. We therefore support efforts to achieve greater alignment between Horizon 2020 and cohesion policy instruments while retaining the important distinction between the two.**

COSME

141. The Commission has proposed a new programme for supporting SMEs: Competitiveness of Enterprises and SMEs (COSME). The programme sits in Heading 1, with a proposed budget of €2.5bn for 2014–20.[144] It will replace the Entrepreneurship and Innovation strand of the current Competitiveness and Innovation Framework Programme (CIP), the rest of which will be merged into Horizon 2020 (see paragraph 133 above). The COSME programme will see a more than 60 per cent increase over the equivalent CIP components.[145] As with the CIP, COSME will not have

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139 Explanatory Memorandum 17932/11, Q 96
140 Q 89 (Sub-Committee G)
141 MFF 1
142 MFF 6
143 Q 95
144 Figures expressed in the Commission's proposals in current prices (COM(2011)834).
145 SEC(2011)1452

Member-State-specific allocations; the Government estimated that, by the end of 2010, the UK had received around 10 per cent of the budget for the Entrepreneurship and Innovation strand of the CIP.[146]

142. SMEs face a number of challenges that limit their growth and competitiveness, including problems in accessing finance and exploiting new markets. EU initiatives such as the Small Business Act and the Europe 2020 strategy aim to support SMEs in overcoming these obstacles, and COSME will participate in this endeavour. It will target four key areas: improving framework conditions for the competitiveness and sustainability of EU enterprises; promoting entrepreneurship; improving access to finance for SMEs in the form of both equity and debt, including an EU-level loan facility; and improving access to markets both inside the EU and out. The Commission's proposal targets the tourism sector for "particular attention" because it makes a "significant contribution … to the Union's GDP" and has a high proportion of SMEs active in the sector.

143. The Government have expressed support for the proposal's attempt to improve framework conditions and to reduce fragmentation of the EU venture capital industry in order to improve SMEs' access to funding. However, they have argued that any additional funds for such action must be drawn from reprioritised existing EU funds.[147]

144. We support the COSME programme in principle. However, we are concerned at both the level of funding proposed, and the instrument's focus on tourism. In addition to the value offered by the tourism sector, it is important to recognise the many other sectors characterised by a high proportion of SMEs and a high level of growth potential.

145. Regarding the proposed EU-level loan facility, BNE advocated that additional funding should be provided for the SME Guarantee Facility and the High Growth and Innovative SME Facility, in order to improve SMEs' access to finance.[148] However, the Government expressed scepticism about the EU loan guarantee facilities, citing the European Court of Auditors' report of March 2011, which found that the EAV of such a facility was not conclusive, and the fact that UK banks have not made use of the loan guarantee facility, "mainly due to the perceived bureaucracy" and a more attractive national scheme (the Enterprise Finance Guarantee).[149]

146. Like the Government, we remain to be convinced that COSME's loan guarantee facility offers added value and does not simply replace national authorities' schemes.

[146] Explanatory Memorandum 17489/11
[147] Explanatory Memorandum 17489/11
[148] MFF 4
[149] Explanatory Memorandum 17489/11

CHAPTER 6: OTHER EXPENDITURE LINES

147. This chapter considers expenditure lines not covered in the preceding chapters, as well as those that fall into the following MFF Headings: Security and Citizenship (Heading 3); Global Europe (Heading 4); and Administration (Heading 5). Most of the budget lines covered in this chapter represent relatively small proportions of total EU spending.

Education and culture

148. We previously concluded that smart growth would depend on education, as well as research, and noted that the current Lifelong Learning Programme could enhance growth through the sharing of ideas and access to new or alternative opportunities.[150] The Commission's education and culture programmes will be funded predominantly from Heading 1, with some funds drawn from Heading 4 (for example, to support international initiatives within Erasmus for All).

Erasmus for All

149. The Commission proposes drawing together all current MFF programmes for education, training, youth, and sport into this single programme, applying the well-known Erasmus "brand" to all of the new sub-programmes. Erasmus for All is intended to add value in three key action areas:
    - (i) Encouraging learning mobility of individuals (two-thirds of the total budget), with an emphasis on higher education students through joint degree programmes and the Masters degree student loan guarantee mechanism;
    - (ii) Supporting cooperation on innovation and good practices between educational institutions and business (one quarter of the total budget); and
    - (iii) Providing support for policy reform (5 per cent of the total budget), including the proposed "U-Multirank" tool.[151]

150. The Commission's proposals include a budget increase of around 70 per cent, compared with the current MFF (€19bn, with €1.8bn being allocated to international cooperation).[152] The Commission argues that this spending is justified in order to stimulate mobility, match the labour market with higher skills, and increase innovation in the education sector, in line with the Europe 2020 objectives. Erasmus for All is intended to complement the Structural Funds, the ESF, and Horizon 2020.

151. The Government were broadly supportive of the Erasmus for All objectives and much of the content of the proposals, but will be seeking significant budgetary reductions in line with their overarching approach to the MFF.[153] However, in our recent inquiry into the modernisation of higher education in the EU, we found that the Minister was alone among all our witnesses in stating that the proposed increase was "completely unrealistic".[154]

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150 *EU Financial Framework*, para. 45

151 U-Multirank will provide a performance-based ranking and information tool for profiling higher education institutions. The Committee explored this and the Commission's Erasmus for All proposal in more detail in our 27th Report (2010–12): *The Modernisation of Higher Education in Europe* (HL Paper 275).

152 The Commission has not specified whether these figures are provided in real terms or at current prices.

153 Explanatory Memorandum 17574/11

154 *The Modernisation of Higher Education in Europe*

152. **Erasmus for All is an important proposal. We welcome the Commission's efforts to streamline and simplify the numerous existing programmes. Although we note the Government's position regarding budgetary restraint, we consider that this programme merits a larger proportion of the next MFF. Life-long learning is key for long-term growth.**

153. **In our report *Grassroots Sport and the European Union*, we recommended a dedicated funding programme for sport under the next MFF.[155] Therefore, we welcome the proposed sport sub-programme. We stand by our previous recommendation that funds should be allocated to improving dialogue with sports stakeholders, and we urge the Government to rethink their opposition on this point.**

Creative Europe

154. Creative Europe will draw together and expand the current Culture, MEDIA and MEDIA Mundus programmes. It will provide a common framework with the intention of creating a simplified and more accessible gateway for European cultural and creative professionals, and includes a new financial facility to help boost SMEs' access to finance. The Commission has proposed a budget of €1.8bn for the Creative Europe programme, representing a 37 per cent increase over the budgets for the separate programmes in the current MFF.[156] The Commission argued that this increase would stimulate the creation of further jobs and growth in line with the Europe 2020 objectives.[157]

155. The Government welcomed the proposal's focus on the economic and growth potential of the creative and cultural sectors and acknowledged that the UK's creative and cultural sectors had benefited from the current programmes. However, they opposed the budget increase and expressed scepticism about the merits of the proposed financial facility; they considered that its necessity had not been demonstrated, and that it should replace rather than supplement grant funding.[158]

156. On the other hand, Media Desk UK said that the fund offered EAV, and Visiting Arts was confident in quantifying the EAV of funds from the EU budget to UK projects at 58 employment weeks per project, that is to say each project gains over a year's salary for a member of staff.[159] Regarding the proposed financial facility, Visiting Arts stated that it would be a "very good thing" as part of a "toolkit" for the cultural and creative sectors, and Media Desk UK explained that in the audiovisual sector there were businesses that would "welcome the opportunity" to take advantage of the proposed system of loans. Arts Council England also supported the new facility.[160]

157. **The cultural and creative sectors' contribution to the EU is fundamentally important. We heard compelling evidence that the increased budget proposed by the Commission would stimulate job-creation and growth in line with the Europe 2020 strategy. In the**

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[155] 16th Report (2010–12), HL Paper 130

[156] Figures expressed in the Commission's proposals in current prices (COM(2011)786).

[157] The European cultural and creative sectors represent around 4.5 per cent of European GDP and account for approximately 4 per cent of the EU workforce (8.5mn people) (*Building a Digital Economy: The importance of saving jobs in the EU's creative industries*, TERA Consultants, March 2010)

[158] Explanatory Memorandum 17575/11

[159] Q 29–30 (Sub-Committee G)

[160] Q 44 (Sub-Committee G), Email from Arts Council England, 20 March 2012

context of domestic funding cuts for these sectors, and UK organisations' obvious capacity for attracting EU funding, we call for the Government to support a proportionately larger budget allocation to this area, which represents only a very small proportion of the total MFF.

158. **We also call on the Government to reconsider its position regarding the proposed financial facility. Businesses in the cultural and creative sectors often experience greater difficulty in attracting investment than their counterparts in other sectors. The Commission's proposed financial facility could offer an important bridging mechanism between these sectors and private-sector investment.**

Security and citizenship

159. The total proposed envelope for Heading 3 in the new MFF is €18.5bn, representing 1.8 per cent of the proposed MFF.[161] Heading 3 incorporates a number of programmes of particular public interest, such as public health and the Rights and Citizenship Programme. Funding for EU agencies that fall within this area will also be included in this Heading.[162] This section does not look in detail at all the smaller elements of this Heading, but provides a short overview and analysis of its main elements.

Justice and Home Affairs

Justice, rights and citizenship

160. This area incorporates five separate programmes: the Rights and Citizenship Programme; the Justice Programme; the anti-fraud proposals Pericles and Hercule; and the Europe for Citizens Programme.

161. The Rights and Citizenship Programme will combine three existing programmes: one on citizenship, violence against women (Daphne III), and non-discrimination (PROGRESS). The Programme aims to contribute to the protection and promotion of citizens' rights, such as non-discrimination, the protection of personal data, and the respect of the rights of the child. The Programme would focus on enhancing public understanding and supporting implementation in Member States. The Commission has proposed a budget of €439mn for the Programme.[163]

162. The Justice Programme will combine three existing programmes: one on civil justice, criminal justice, and drugs prevention. EU activity would fund a number of actions, including the collection of data, training for legal practitioners, and the development, operation and maintenance of IT systems and tools. The Commission has proposed a budget of €472mn for the Programme.[164] Various UK organisations have received funding from the current programmes to finance transnational projects, such as raising

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[161] See Table 2.

[162] The agencies concerned are: European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX); European Asylum Support Office (EASO); EU Fundamental Rights Agency (FRA); Eurojust; European Network and Information Security Agency (ENISA); European Police College (CEPOL); and European Police Office (EUROPOL). In addition, an Agency for the operational management of large-scale IT systems in the area of Freedom, Security and Justice (AFSJ) has been established.

[163] Figure expressed in the Commission's proposals in current prices (COM(2011)758).

[164] Figure expressed in the Commission's proposals in current prices (COM(2011)759).

awareness of the effects of prison life, and studying rehabilitation and reintegration of offenders.[165]

163. For both of these Programmes, the Government have welcomed the proposed rationalisation of funding streams in order to provide greater flexibility and offer efficiency savings.[166]

164. Pericles 2020 and Hercule III succeed Pericles and Hercule II, two anti-fraud programmes key to the European Anti-Fraud Office. Pericles funds staff exchanges, technical assistance and training to combat euro counterfeiting. Hercule II provides funding for action to combat fraud that affects the EU's financial interests, including cigarette smuggling and counterfeiting. The proposed budget for Hercule III is €110mn; Pericles 2020 has a proposed budget of €7.7mn.[167]

165. Europe for Citizens aims to encourage and facilitate citizens' wider involvement in the European Union. The Commission has proposed a budget of €229mn over the course of the next MFF, compared to the current Citizenship Programme's budget of €215mn.[168] The Commission has stated that the programme will:

(i) Develop civil society capacity to participate in the Union policy-making process;

(ii) Develop supportive structures to channel the results of such debates to policy-makers at the relevant levels; and

(iii) Offer additional opportunities for individual citizens to participate in debates and discussions on Union-related issues.

166. We previously drew attention to the importance of communicating the EU's work to citizens.[169] Europe for Citizens is complementary to this objective, and Article 11 of the Treaty on European Union.[170] The Government told us that this programme is complementary to the aims of their Big Society agenda, particularly in encouraging the participation of young people; however, they stated that they would be examining in closer detail the value for money offered by the proposal and making recommendations for cuts in the proposed budget.[171]

167. It is difficult to assess the "right" amount of EU spending on Justice, Rights and Citizenship. We consider that the level of EU activity from 2014 to 2020 should be broadly the same as that in 2013. Consequently, the spending level in 2013 should be maintained in real terms. Savings should be found from elsewhere within the MFF in order to fund this small increase. If necessary, spending on Justice should have a higher priority than the Citizenship programme.

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165 Explanatory Memorandum 17278/11

166 Explanatory Memorandum 17273/11 and Explanatory Memorandum 17278/11

167 Figures expressed in the Commission's proposals in current prices (COM(2011)914 and COM(2011)913).

168 Figures expressed in the Commission's proposals in current prices (COM(2011)884).

169 *EU Financial Framework*, para. 136

170 Article 11 states, among other things: "The institutions shall, by appropriate means, given citizens and representative associations the opportunity to make known and publicly exchange their views in all areas of Union action. The institutions shall maintain an open, transparent and regular dialogue with representative associations and civil society. The European Commission shall carry out broad consultations with parties concerned in order to ensure that the Union's actions are coherent and transparent."

171 Explanatory Memorandum 18719/11

168. We repeat our call for the importance of communicating the work of the EU to citizens to be recognised in the MFF. The Europe for Citizens programme is linked to this important objective. We support the proposed aims of Europe for Citizens and would support a proportionately larger budget for the programme within a reduced MFF.

Home Affairs

169. Home Affairs accounts for less than 1 per cent of the overall MFF. The Commission proposes a budget of €10.9bn from 2014–20.[172] The current Home Affairs budget is currently distributed between six funds, which the Commission proposes to rationalise into two funds: one on Asylum and Immigration, and one on Internal Security. However, it is worth noting that these new Funds are to be adopted via four Regulations, which reflect the variable geometry of this area.[173]

170. The proposed Asylum and Immigration Fund will incorporate the current European Refugee Fund, the European Fund for the Integration of third-country nationals, and the European Return Fund. It has a proposed budget of €3.9bn over the course of the MFF.[174]

171. The proposed Internal Security Fund will incorporate the current Programme for the Prevention, Preparedness and Consequence Management of Terrorism and other Security-related risks, the Programme for the Prevention of and Fight against Crime, and the External Borders Fund. It has a proposed budget of €4.6bn over the course of the MFF.[175]

172. In general, the Government have welcomed the simplifications that will result from merging six funds into two new ones. They agreed with the Commission that the varying implementation rules for the current funds resulted in "duplication of efforts" and "increased workload". However, the Government's approach of emphasising budgetary restraint is particularly strong in this area. They have stated that the Home Affairs budget "should not be allocated additional funds in the next MFF"; instead, any increase in programming budgets must be met by corresponding decreases within the Justice and Home Affairs area.[176] In their oral evidence to us, officials from HM Treasury explained that the Government were taking this "tough position" because the area had consistently seen underspending.[177] Figure 3 shows the level of funding managed by the Directorate-General for Home Affairs year-on-year during the current MFF.

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[172] Figures expressed in the Commission's proposals in current prices (COM(2011)749).

[173] For example, the UK is excluded from measures that build on that part of the Schengen *acquis* relating to supporting action to strengthen the external border and visa management.

[174] Figures expressed in the Commission's proposals in current prices (COM(2011)749).

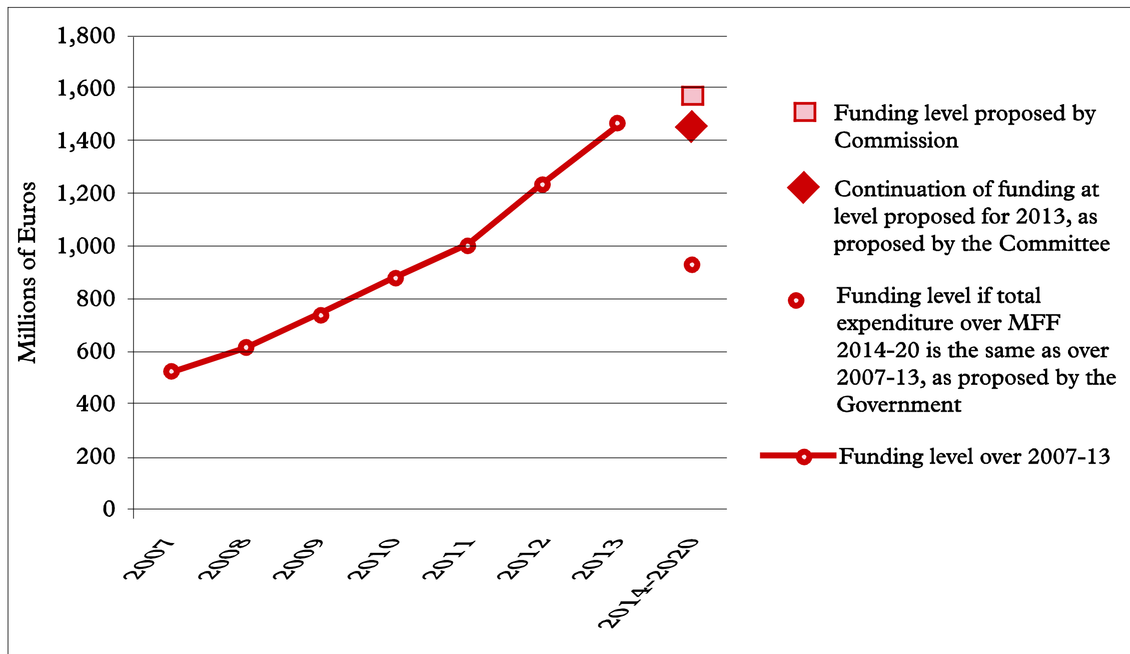
[175] Figures expressed in the Commission's proposals in current prices (COM(2011)749).

[176] Explanatory Memorandum 17284/11

[177] Q 98

FIGURE 3

Funding managed by DG Home Affairs



173. Since our previous report was published, the Sub-Committee on Home Affairs has considered the funding of EU programmes in the reports *The EU Internal Security Strategy* and *The EU Drugs Strategy*.[178] In *The EU Internal Security Strategy*, we concluded that an EU Cybercrime Centre should be established within Europol,[179] and we disagreed with the Government's proposal that this could be done without making additional resources available. The Commission has recently published a Communication stating that in their view there should be further assessment of the resource implications of such a centre.[180]

174. **We cannot support the Government's suggestion that any increase in funding for Justice and Home Affairs programmes must come from elsewhere in the JHA budget. This appears to be inconsistent with the Government's long-term approach to the MFF, which emphasises reprioritisation to support key budget lines. We would support modest increases in some aspects of EU home affairs work, such as the work of Europol and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), provided these could be funded from savings elsewhere in the MFF. As we have previously concluded, a Cybercrime Centre is essential, but cannot be funded at the expense of other parts of the home affairs budget. Funding must be found from elsewhere in the MFF for this vital Centre.**

175. **We stress that, due to increased activity in this relatively new area of the EU budget, comparisons with earlier years are meaningless.**[181] **Although we do not support the Commission's proposed budget for**

[178] 17th Report (2010–12), HL Paper 149 and 26th Report (2010–12), HL Paper 270

[179] Such a centre is scheduled to be established at the beginning of 2013 (*EU prepares to launch first cybercrime centre*, Euractiv, 29 March 2012).

[180] COM(2012)140

[181] The budget in this area has grown by approximately 20 per cent each year over the course of the current MFF.

Justice and Home Affairs, funding in the next MFF should not fall below that at the end of the current MFF period in real terms.

176. This Heading also includes the current programmes Fiscalis 2013, intended to improve the operation of taxation systems in the internal market, and Customs 2013, designed to help facilitate trade and combat fraud. The Commission has proposed merging these two into a single successor programme, FISCUS, to help ensure coherence between them. The proposed budget of €778mn would constitute an increase of 39 per cent over the combined budgets of the current programmes.[182]

177. The Government have expressed concern about the FISCUS proposal and argued that the programmes were ill suited for a merger, with tax matters primarily a Member State competence, and the customs union an area of exclusive EU competence.[183]

178. **We support the proposed simplification of funds within this Heading. However, we agree with the Government that a merger between Fiscalis 2013 and Customs 2013 is undesirable, and we remain unconvinced by the case for the proposed budget increase.**

UK opt-ins in Justice and Home Affairs

179. The UK has an opt-in to the Justice Programme, and three Home Affairs Regulations relating to: the Asylum and Migration Fund; a portion of the Internal Security Fund relating to police cooperation, combating crime, and crisis management; and general horizontal provisions between the two Funds. The Commission has also published a Regulation governing the Internal Security Fund with respect to Schengen matters, which does not apply to the UK.

180. The Government have decided not to opt in to the Justice Programme. They have also decided not to opt in to the Regulation on the Internal Security Fund that applies to the UK, although it relates to matters in which the UK can and usually does take part. They have decided to opt in to the Regulation relating to the Asylum and Migration Fund, and to the Regulation governing general horizontal provisions between the two Funds.

Health and consumers

181. The Health for Growth Programme also sits within Heading 3. It aims to encourage innovation in healthcare, increase the sustainability of health systems, and protect EU citizens from cross-border health threats. It includes programmes such as e-Health and the European Innovation Partnership on Active and Healthy Ageing. The proposal emphasises the links between economic growth and a healthy population, and its key priorities are intended to support Europe 2020.

182. Health for Growth builds on the Public Health Programme (2003–08) and the Health Programme (2008–13), and has a stronger healthcare focus than the previous programmes. The Commission has proposed a budget of €446mn over the course of the MFF.[184] The Government agreed with the priorities set out in the Programme, and stated that the Programme provided scope to support and assist UK policies and cross-border initiatives.[185]

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[182] Figures expressed in the Commission's proposals in current prices (COM(2011)706).
[183] Explanatory Memorandum 16901/11
[184] Figures expressed in the Commission's proposals in current prices (COM(2011)709).
[185] Explanatory Memorandum 16796/11

However, they raised concerns about "competency creep" in the field of healthcare and told us that, should there be a reduction in the programme's budget, they would support a reduction in areas that did not relate to traditional public health and prevention, such as healthcare.[186]

183. **In our report *Healthcare Across EU Borders*, we concluded that the Commission and Member States should not underestimate the challenge of the task of increasing the interoperability of patient registers.[187] This aspect of the e-Health proposal is premature and overly ambitious. Funding in this area should be restricted to that necessary to support a feasibility assessment.**

184. **We previously emphasised the importance of a safe pathway of care and the value of cooperation between service providers through European reference networks. We are in favour of these being supported by the Health for Growth programme. Health promotion is an area that we consider is given insufficient prominence in the Programme.**

185. The Consumer Programme aims to inform and empower consumers, protect their interests, and create the best conditions for their active participation in the single market. Its budget has increased to €197mn under the current MFF proposals.[188] The instrument has been strengthened in three particular areas: support for a stronger alert system for dangerous products; the new Cosmetic Products Notification Panel; and support for development of new dispute resolution mechanisms.

186. The largest proportion of funding within the Consumer Programme is earmarked to support the European Consumer Centre (ECC) Network. These Centres offer free consumer advice and expert help, and are co-sponsored by the Commission and Member States. The Centres have been established in every Member State, as well as Norway and Iceland. The UK ECC handles more queries from consumers than any other Member State's ECC.

187. The Government welcomed the objective of placing empowered consumers at the heart of the single market, and they told us that the proposal was largely consistent with their domestic objectives. They were particularly supportive of market monitoring and the alert system for dangerous products (RAPEX).[189]

188. The Consumer Programme is a valuable addition to the policy area, and we see scope for the further development of consumer digital rights. The European Consumer Centre is important for UK consumers, and the network should continue to be well funded.

189. Budget reductions may be possible in relation to training national consumer organisations and awareness-raising campaigns on consumer issues. However, programmes such as RAPEX and increasing the awareness of rights with regard to the digital single market offer particular added value. We support the funding proposed in this area.

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[186] Letter from Andrew Lansley MP, 9 January 2012, and letter from Andrew Lansley MP, 6 February 2012
[187] 4th Report (2008–09), HL Paper 30
[188] Figures expressed in the Commission's proposals in current prices (COM(2011)707).
[189] Explanatory Memorandum 16795/11

External relations

190. The Commission has proposed an increase in the overall budget of Heading 4 from €55.9 to €70bn, excluding the European Development Fund (EDF), which sits "off-MFF", and the costs of CSDP military operations.[190] The Commission's proposals retain substantially the same structure as those in the current MFF.

191. The Commission argues that action at EU level offers significant EAV, such as providing a strong negotiating position and greater political leverage, and achieving economies of scale in delivering technical and financial assistance and providing diplomatic and development services. The Commission also argues that the EDF should ultimately be brought on-budget in order to consolidate EU development aid within the MFF.[191]

192. The Government welcomed the Commission's proposals, which they said were broadly in line with the findings of a review carried out last year by the Department for International Development into the UK's participation in multilateral aid.[192] The Government spoke of the area of external action as a priority within the MFF and have told us that they would be content for Heading 4 to grow proportionately as a part of a smaller overall framework. Nevertheless, they wished to see the proposed budget increases of a number of specific instruments reversed.[193]

193. As we have seen in recent years, there are significant upward pressures on this part of the EU budget, including the need to tackle the causes of immigration, the Arab Spring, and developments in North Africa. By their nature, many of these challenges are unpredictable.

194. To meet these challenges, the Commission's proposals have incorporated a greater need for flexibility. The marginal allocation in this Heading, intended to allow for some spending that has not been specifically allocated at the outset, is to increase year-on-year over the course of the next MFF. In addition, the proposed revised instruments and the increased size of the CFSP budget offer greater flexibility of spending.

195. **We welcome the Commission's efforts to increase the flexibility and agility of funds within Heading 4, as well as the significant simplifications and standardisations of the existing complicated and variable processes. Given these improvements, we are sceptical about the need for the additional year-on-year marginal increases proposed by the Commission for the purpose of delivering increased flexibility.**

196. **We considered the question of bringing the European Development Fund "on-budget" in 2004,[194] and in our previous MFF inquiry in 2011. We again emphasise the clear advantages that would be offered if the Development Fund were brought within the MFF, including bringing greater coherence to EU aid, and simpler aid procedures. We urge the Government to negotiate particularly for the EDF to be brought "on-budget".**

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[190] See Tables 1 and 2 above.

[191] COM(2011)837 final

[192] *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations*, DFID, March 2011

[193] Explanatory Memorandum 18602/11. In particular they seek reductions in the European Instrument for Democracy and Human Rights (Explanatory Memorandum 18621/11), and the Instrument for Nuclear Safety Cooperation (Explanatory Memorandum 18540/11).

[194] 12th Report (2003–04): *EU Development Aid in Transition* (HL Paper 75)

197. The European External Action Service (EEAS) was formally launched on 1 December 2010. It implements the EU's Common Foreign and Security Policy and other areas of the EU's external representation, such as responding to crises. The EEAS offers particular EAV and has the potential to reduce Member States' spending on external representation.

198. Contrary to the expectations expressed in our previous report,[195] the EEAS has not been made an additional heading in the Commission's MFF proposals. Rather, the budget of the EEAS is currently divided between Headings 4 and 5, and given its relatively low proportion of the overall Administration Heading, it is not obvious how much will be set aside for the EEAS from 2014–20.

199. We believe that it would be simpler, and potentially more coherent, for the European External Action Service to have a separate, ring-fenced budget. If this cannot be achieved in the current MFF negotiations, we would welcome an indication in the eventual agreement of how much of Heading 5 has been earmarked for the EEAS.

Administration

200. The proposed ceiling for Heading 5 amounts to €62.6bn, approximately 5.7 per cent of the total MFF.[196] This would keep level the proportion of spending on Administration from the current MFF. The Administration budget includes the funding of the EU institutions, such as the Commission and the European Parliament, and services such as the EEAS (see paragraph 197 above).

201. Sixty-five per cent of the spending in the Administration Heading is dictated by the Staff Regulations. The Commission have proposed alterations to the Staff Regulations with changes to be come into force in 2013.[197] Therefore, although not technically forming part of the MFF, the Staff Regulations are important for Heading 5.

202. In *EU Finances 2011*, the Government set out the key areas on which they would be focusing in negotiations on the Staff Regulations, including pensions, the career structure system, and the allowances system.[198] The Government remain in dialogue with the Commission about the Staff Regulations proposals, but are of the opinion that the commitment appropriations suggested "imply significant increases to the programme" in payment terms.[199] They stated that the proposal "compares poorly with the efforts of Member States such as the UK to reduce public sector staff costs".[200]

203. As well as changes to the Staff Regulations, the Commission has proposed a 5 per cent reduction in the staffing levels of each institution, service, agency and body as part of the next MFF.[201] The Commission have also taken a number of steps to restrain Administration spending, including operating a "zero growth" policy regarding staff levels, and reducing certain allowances.

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195 *EU Financial Framework*, para. 143
196 See Table 2.
197 COM(2011)890
198 *EU Finances 2011*, p.12.
199 Explanatory Memorandum 18638/11, para. 12.
200 Para. 14.
201 COM(2011)500

204. The EESC cautioned against "resorting to facile demagogy about the administrative costs of the European institutions" and suggested that more should be done to highlight the participation of the institutions in Member States' administrative economies. Dr Nuñez Ferrer and Professor Tarschys also highlighted the fact that potential savings could be found in merging Member States' administrative units with central bodies (e.g. in relation to external action), but stated that this was generally ignored on political grounds. They also noted that cuts in administration, while "very visible and popular", "run counter to the needs and changes on the ground", and argued that a "knowledge-based economy" demanded "knowledge-based governance", making it vital to maintain funding for the institutions or risk the "capacity deficit" in EU governance widening.[202]

205. We recognise the efforts that the Commission are making to bring the administrative costs of the EU institutions more in line with those of Member States and appreciate the importance of preventing a "capacity deficit" within the EU institutions. However, we agree with the Government that more must be done in this area to reflect the difficult decisions being taken at national level, which is important from a public perspective. In the longer term, we urge the Commission to consider again some of the institutional practices of the EU in order to achieve further administrative efficiencies.

206. We considered the level of funding provided to the European Court of Justice (ECJ) in detail in our report *The Workload of the Court of Justice of the European Union*.[203] The Government have told us that while they recognise the large backlog of cases facing the ECJ, they wish to see the ECJ's capacity increased as a result of cost-effective reforms, or through a budget increased funded by administrative savings elsewhere.

207. Although we support the Commission's efforts to cut the Administration budget for each of the EU bodies, we reiterate that funding for the EU courts must increase during the next MFF period to enable the courts to handle an increasing workload. This increase should be funded from savings elsewhere in the Administration budget.

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202 MFF 1, MFF 7

203 14th Report (2010–12), HL Paper 128

CHAPTER 7: SHAPE AND FLEXIBILITY OF THE MFF

Off-budget expenditure

208. The Commission justifies the level of "off-MFF" spending by arguing that large and complex projects with long lifespans and unpredictable funding needs are unsuitable for what is, by nature, a fairly "rigid" financial framework.[204] Expenditure placed off-budget requires money to be raised by an additional financial contribution on the part of Member States, distinct from their standard EU contributions.

209. The Government opposed the placement of expenditure lines off-budget and stated that retaining all items of EU spending on-budget would "ensure proper clarity and sound financial management".[205] Anne Jensen MEP, Marta Andreasen MEP and the LGA all agreed that it was in principle preferable to keep spending on-budget in order to facilitate greater transparency. The LGA proposed that greater flexibility should be incorporated into the MFF to meet the challenges posed by large-scale projects. Professor Ackrill suggested that the inclusion of some projects within the MFF could compromise the robustness of the balanced budget rule, although we note that the residual nature of the GNI-based resource used to fund the budget would ultimately ensure that the budget always balances.[206]

Large-scale projects

210. We previously highlighted the importance of robust management and costing of large-scale projects at EU level.[207] This related particularly to the International Thermonuclear Experimental Reactor (ITER) and the Galileo global satellite project. Although the Galileo project is included in Heading 1, it is considered here along with ITER and the Global Monitoring for Environment and Security (GMES) project.

Galileo

211. Galileo is a global navigation satellite system intended to provide a highly accurate, guaranteed global positioning service. It aims to provide European users with an alternative to taking positions from US (GPS) or Russian (GLONASS) satellites, and European independence is a key aspect of the project. However, Galileo also aims to achieve better coverage for users in northern Europe than GPS, and to provide opportunities in the manufacturing, software, and service sectors.

212. The Commission proposes a significant shift in how this project is managed, splitting responsibility for overall political coordination, which will remain with the Commission, from operational management, which will shift to a number of agencies, including the European GNSS Agency (GSA). This reform is allied with a new budget of €7.9bn.[208]

213. **We are deeply concerned at the continued funding of Galileo, a project beset by repeated delays and cost overruns, particularly as the Commission's proposals double funding levels. There are**

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204 Q 52
205 Q73, MFF 11
206 MFF 2, MFF 9, MFF 10, MFF 5
207 *EU Financial Framework*, paras. 49–50
208 Figures expressed in the Commission's proposals as in current prices (COM(2011)814).

opportunities for growth in the space sector, both in infrastructure construction and service development, but Galileo is not the right project to seize these opportunities. Despite the money and political capital already invested in Galileo, we would call for the project to be brought to an end. If it is to continue, the revision of governance is welcome, as it offers greater potential for expert management.

ITER and GMES

214. ITER is a large-scale experimental reactor designed to test key technologies that will be used in the next step of the project to demonstrate that nuclear fusion can provide commercially viable energy. GMES is the European Programme for the establishment of a European capacity for Earth Observation. It is intended to provide environmental information to policymakers and public authorities to inform the preparation of environmental legislation and policies, as well as to support critical decision-making during natural catastrophes and humanitarian crises.

215. The Commission has proposed removing spending on ITER and GMES from the MFF budget.[209] The Commission states that the long duration of the ITER project renders it unsuitable for management within the MFF.[210] Director-General Jouanjean argued that, unlike Galileo, which was returned to the budget, the nature of ITER meant that being placed on-budget would not bring governance benefits. He also argued that its inclusion in the budget might prejudice other research projects, such as laboratories for universities.[211]

216. The Government, in contrast, argued that spending should remain within the MFF in order to ensure "proper clarity and sound financial management".[212]

217. We are concerned that the Commission proposes placing ITER and GMES off-budget in the next MFF. The transparency and accountability afforded by the MFF negotiating process is an important element in ensuring the robust management of large projects, even though we recognise that ITER is an international commitment. Moving significant levels of spending off-budget creates the impression of opacity and should be resisted. We are not persuaded by the Commission's argument and would prefer to see greater flexibility within the MFF in order to avoid placing programmes "off-budget".

Other Funds

European Solidarity Fund

218. The European Solidarity Fund provides assistance to Member States and accession countries affected by major natural disasters.[213] It is not a rapid-response instrument for crisis management, but helps to re-finance emergency operations financed initially by national public authorities. During the current MFF, the Solidarity Fund has been used, for example, to assist clean-up and repair operations following the 2009 earthquake in Abruzzo, Italy. This was the biggest disaster seen in Europe since the

209 See Table 3 above for the proposed budgets over the course of the next MFF.
210 MFF 8
211 Q 52–53
212 Q 73, MFF 11
213 COM(2011)613

Solidarity Fund was created in 2002, and led to the highest grant ever made (almost €0.5bn).

219. The Budget Authority (the Council and the European Parliament) must approve grants from the Solidarity Fund via an amending budget. Currently, the threshold for financial assistance is estimated at over €3bn or more than 0.6 per cent of national GNI. The Commission has not argued to increase the budget ceiling for this Fund, and it has never to date drawn upon its full annual ceiling (€1bn).[214]

220. The Commission has proposed streamlining the administrative processes for applications to the Solidarity Fund in order to increase the Fund's efficacy and speed of response. Specifically, the Commission proposes merging the adoption of a Commission decision awarding aid and the adoption of an agreement to implement such aid into one process. The Government supported this change provided that it did not render the reporting and evaluation of Fund programmes more opaque.[215]

221. We are concerned about the proposal to move the Solidarity Fund outside the MFF. However, we support the Commission's proposals to speed up the process of agreeing and making available financial assistance in so far as these are consistent with exercising overall budgetary restraint.

European Globalisation Adjustment Fund

222. The European Globalisation Adjustment Fund (EGF) is intended to provide one-off support to workers made redundant due to the effects of the increasing globalisation of production and trade patterns. The Commission has argued that the programme should be retained "off-MFF" because of the "unforeseeable and urgent character of the circumstances which warrant its deployment".[216]

223. The EGF's efficacy has been criticised, in particular due to the lengthy and procedurally complex decision-making process, which the Commission has acknowledged, and the fact that it has consistently been underspent.[217] The Commission has proposed several improvements for the next MFF, such as setting a new target that at least 50 per cent of workers assisted through the EGF should find a new and stable job after 12 months. However, the Government remained sceptical and expressed a "principled opposition" to the EGF, arguing that the "one-off" nature of EGF assistance meant it could not tackle the priorities of increasing the capacity of labour market institutions and improving the efficiency and efficacy of active labour market measures. They have invited comparison between the EGF and the ESF and would wish to see an open assessment of whether the ESF could meet the purposes of the EGF, possibly through the option of flexible responses to labour market shocks, as was seen in 2008–09.[218]

224. We acknowledge the case for some form of crisis intervention instrument in the event of large-scale redundancies. However, we are not convinced that the European Globalisation Adjustment Fund is the most effective means by which to provide such support. We see

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214 COM(2011)694

215 Letter from Mark Hoban MP, 1 February 2012

216 COM(2011)608, p.3.

217 Ibid.

218 Explanatory Memorandum 15440/11, see also letter from Chris Grayling MP, 30 January 2012

merit in the Government's suggestion that the European Social Fund could meet the purposes of the Globalisation Adjustment Fund, and we would encourage further review of the ESF in this context, perhaps with a view to incorporating a contingency fund within the current Fund.

Flexibility within the MFF

225. Within the Commission's MFF proposals, flexibility is incorporated in a number of different ways:

   (a) Increased spending within one or more Headings amounting to up to 0.03 per cent of EU GNI decided by qualified majority in Council—or more by unanimity—and with the European Parliament's agreement;[219]

   (b) Unallocated margins that may be reallocated between Headings during the financial year;[220]

   (c) The redeployment of funds within Headings; and

   (d) The five instruments placed outside the MFF:

      (i) The Emergency Aid Reserve;

      (ii) The European Globalisation Adjustment Fund;

      (iii) The European Solidarity Fund;

      (iv) The Flexibility Instrument;[221] and

      (v) The Reserve for crises in the agriculture sector.

226. Despite these mechanisms, there are concerns about the inflexibility of the MFF. Director-General Jouanjean was pessimistic about increasing the MFF's flexibility given its nature as a "contract" between Member States and the Commission.[222] The COR stressed the importance of greater flexibility to move funds between Headings and urged the implementation of a "flexibility reserve" to deploy unused budget appropriations, rather than these being returned to Member States.[223] However, the Government previously raised concerns about the prospect of increased flexibility increasing the cost exposure of the UK. They have emphasised the need to balance flexibility with sound financial management throughout our inquiry.[224]

227. We previously determined that "the current MFF has proven too inflexible" in the context of the euro area crisis and recommended that the MFF make it "easier for funds to be re-prioritised and reallocated ... to allow for a more

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[219] This power has been used for the increase agreed for Galileo and the European Institute of Technology in 2007, for the Emergency Aid Reserve in 2008, and for the European Economic Recovery Plan in 2009. Lower spending in future years or in other Headings will make up the increase so that the overall expenditure of the seven-year MFF is not exceeded.

[220] This margin is the difference between the MFF commitments ceiling and what is actually agreed in the budget. Reallocation requires the agreement of the budgetary authority, the Council and the Parliament.

[221] The Flexibility Instrument was established under para. 24 of the 1999 IIA. It allows for expenditure of up to €200mn above the ceilings established for one or more Budget Headings in any financial year. Unused funds may be carried over for up to two subsequent years. The Flexibility Instrument is intended for extraordinary expenditure, and so can only be employed once all other possibilities for reallocation have been exhausted. The Flexibility Instrument is not generally intended to be used to fund the same needs two years running.

[222] Q 60

[223] *Opinion of the Committee of the Regions*

[224] Explanatory Memorandum 9193/10; EUFF 17; see, for example, Explanatory Memorandum 15243/11

effective adaptation to changing circumstances".[225] **Flexibility and sound financial governance are not mutually exclusive, and the MFF should strive to offer both via controlled mechanisms for moving funds within Headings in order to allow reprioritisation over the course of the MFF.**

228. We previously concluded that a five-year MFF would be desirable. We understand from the Government that there is a preference among Member States for a seven-year programme to be retained.[226] **We remain of the view that the current MFF has proven too inflexible, and that steps must be taken to remedy this. We repeat our call for the MFF to move to a five-year programme.**

229. We would again emphasise that, in the light of current economic challenges, new approaches are required. We strongly regret that the opportunity appears to have been missed to introduce them. The risk of even greater disruption to European economies cannot be ignored. Were this to materialise, there could be calls on the EU budget that could not easily be met from the principal budget lines, such as the CAP or cohesion policy. We urge the Government to take into account the consequent need for flexibility while negotiating the new MFF.

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[225] *EU Financial Framework*, para. 190

[226] Q 77

CHAPTER 8. INCOME AND CORRECTIONS

Own resources

230. The Commission has repeated its view that the present system of own resources is confused and overly complex. The Commission argued, in strong terms, that a *juste retour* approach by Member States "poison[ed]" debate about the EU budget, and that the newly proposed system would contribute to national budgetary consolidation efforts and align the EU's financing with its policy objectives.[227] The two major differences in the proposed Own Resources Decision (ORD) from 2014 are two new own resources, intended partially to fund the EU budget, and a change to the correction mechanism system. These are discussed in greater detail below. It should be noted that the new ORD is subject to unanimity.

231. In general, the EESC was supportive of the Commission's proposals, particularly those that transferred a proportion of national-level taxes to the EU, such as the new VAT proposals. It noted that "no effective reform" could take place "without restoring well targeted, sustainable and autonomous resources" to the EU, but cautioned that appropriate impact assessments were required, and that reform should not increase the tax burden, but contribute to a rationalising and balancing of it. The LGA echoed the call for a thorough feasibility and impact assessment to be carried out in a UK context before any changes to the present system could be agreed. The COSLA cautioned that failing to make progress on this political issue could prejudice the whole MFF. The COR called for there to be "more courage" and more decisive action on implementing new own resources.[228]

232. However, Marta Andreasen MEP suggested that the Commission's proposals should be opposed because they would allow the Commission the freedom to operate independently of Member States. She also expressed concern that they would result in costs being passed down to small business and consumers.[229] Although the overall level of funding available to the EU would not alter, the balance of own resources (set out for 2011 in Table 4), would change, as described in the following sections.

233. The Government have expressed two fundamental objections to changes to the own resources system, namely:

    (i) That the temporary lump sum correction system proposed by the Commission would remove the permanency of the UK's current abatement mechanism, which would "threaten" the UK's "long-term outcomes"; and

    (ii) That the proposed changes are "a distraction from the primary need" of restraining the size of the EU budget, and infringe upon tax policy.[230]

234. They have also explained that they will oppose "any new EU taxes or changes to the existing Own Resources system" that might raise UK contributions or "pose a threat to our position in the long term".[231]

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227 COM(2011)510

228 MFF 1, MFF 10, MFF 6, *Opinion of the Committee of the Regions*

229 MFF 9

230 Explanatory Memorandum 12478/11

231 Explanatory Memorandum 16846/11

Financial Transaction Tax proposal

235. We have recently published a report on the feasibility of an EU-wide FTT, *Towards a Financial Transaction Tax*, and this inquiry into the MFF therefore focuses on the function of such a mechanism as an own resource.

236. The Commission's FTT proposal is the first of its proposals for new own resources. The Commission argued that, by 2020, an FTT might provide €37bn per annum to the EU budget (22.7 per cent of own resources). It also suggested that an FTT would create a new revenue stream that would "gradually replace national contributions to the EU budget". According to the Commission, in this way, an FTT would "give national governments extra room for manoeuvre and contribute to the general budgetary consolidation effort".[232]

237. However, a number of witnesses have expressed concerns about the proposal. The Oxford University Centre for Business Taxation stated that it was unclear why the financial sector should be targeted, and Professor Ackrill suggested that the FTT proposal's reversal of the trend towards horizontal measures rendered it inappropriate as an EU revenue.[233] The Government have expressed strong opposition to any new EU taxes to fund the EU budget, highlighting the issue of tax sovereignty.[234]

238. We have found the evidence of Professor Ackrill and the Oxford University Centre for Business Taxation to be convincing. **We consider that the Commission has failed to make a case for an EU-wide Financial Transaction Tax. We also find the Commission's proposal that an FTT provide funding for the EU budget unsuitable on two further grounds. First, it is likely to fall disproportionately on a minority of Member States, and especially the UK, which could account for 71 per cent of overall revenue under the Commission's proposal.[235] Second, we cannot identify any genuine link between EU policy objectives, such as those of Europe 2020, and an FTT, and so find that the proposed tax fails to be a suitable own resource on the Commission's own criteria.**

VAT-based own resource proposal

239. The Commission has proposed replacing the current VAT-based resource with a new version. Due to the variations between national VAT systems, the existing VAT-based own resource requires a number of complex calculations in order to arrive at a harmonised base. Such calculation methods, the Commission suggested, meant that the VAT-based own resource offered little or no added value over the GNI-based own resource. The Commission has argued that a new system would simplify national contributions and reduce the administrative burden for Member States and the Commission itself. Further, the Commission has suggested that the change would provide "new impetus" to the development of the internal market by "reinforcing harmonisation of national VAT systems".[236]

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232 COM(2011)510 and COM(2011)594

233 Oxford University Centre for Business Taxation, MFF 5

234 Explanatory Memorandum 12475/11

235 Oxford University Centre for Business Taxation and Schulmeister, S., M. Schratzenstaller, and O. Picek, 2008, "A General FTT: Motives, Revenues, Feasibility and Effects," Oesterreichisches Institut fuer Wirtschaftsforschung working paper, Vienna. This question was examined in more depth in our earlier report *Towards a Financial Transaction Tax?*

236 COM(2011)510 Final

240. However, in their Communication on VAT reform, the Commission has acknowledged that "Member States are understandably unwilling to take any risks that are triggered by reform efforts and could threaten VAT revenues, which accounted for around €784bn in 2009".[237] It is anticipated that the proposed new VAT-based own resource would provide an increased level of funds compared to the current VAT-based resource.[238]

241. Anne Jensen MEP was broadly supportive of the Commission's VAT proposal, which she argued could add to transparency and fairness within the own resources system. However, Professor Ackrill disagreed, stating that the proposal was "inappropriate economically and dangerous politically" due to its heightened impact on less well-off citizens. He highlighted that, as a replacement for the GNI-based contribution, it would be "a backwards step in terms of contributions being based on ability to pay". Marta Andreasen MEP expressed concern that the new VAT-based resource would diminish Member States' revenues, although we note that any such reduction would be offset by lower calls on the GNI-based resource.[239]

242. The Government remain opposed to a new VAT-based own resource on the same grounds of general opposition mentioned above.[240] However, they have not repeated the views expressed by the Economic Secretary in evidence to the last inquiry that the current VAT-based resource should be scrapped. Rather, Government officials have stated that the Government wish to protect the abatement "in its entirety", which means that they are "wedded" to the calculation method based on the current VAT-based resource.[241]

243. We are concerned that a VAT-based own resource is not appropriate for funding the EU budget. The complexity of the VAT-based own resource, and the Commission's own statement that it offers no European Added Value over the GNI-based resource, may make it preferable for it to be removed entirely, which could bring relatively small, although welcome, savings by reducing the administrative costs of collection. This need not necessarily prejudice the UK abatement, although we acknowledge that determining a new base for calculating the abatement might require a difficult negotiation. We nevertheless urge the Government to give further thought to this possibility as part of their response to the own resources proposals.

Innovative financial instruments and leveraging

244. The term "innovative financial instruments" (IFIs) covers participation in equity funds, guarantees to local banks lending to SMEs, or risk-sharing with financial institutions to boost investment in large infrastructure projects (e.g. the Europe 2020 Project Bonds Initiative). IFIs are designed to leverage the EU budget to increase its impact, and the Commission hopes to use them to encourage financing in areas that are otherwise considered risky by investors.[242] IFIs are already in use in a number of forms in the current MFF, including:

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237 COM(2011)851

238 For comparison, the current VAT-based own resource is expected to provide 11.1 per cent of own resources to the 2012 budget (€14.5bn), and the Commission estimated that the proposed new VAT-based resource would, in 2020, constitute 18.1 per cent of own resources (€29.4bn).

239 MFF 2, MFF 5, MFF 9

240 MFF 11: "We oppose the new VAT resource whether you consider it a new tax or not".

241 Q 103

242 MFF 8, COM(2011)662

(a) Risk-sharing instruments (e.g. the Risk-Sharing Finance Facility for investment in research, development and innovation);
(b) Guarantees for SMEs under the Competitiveness and Innovation Framework Programme;
(c) Financial engineering and technical assistance within cohesion policy (e.g. the JESSICA instrument);[243] and
(d) Equity instruments (e.g. the Marguerite Fund for energy, climate change and infrastructure).

245. In general, leveraging EU funds allows them to have greater impact in a way that simultaneously helps to avoid budget increases.[244] However, leveraging risks compromising the predictability of EU funding. For example, in structural funds, where EU money is leveraged via the requirement for national match-funding, we have seen variable levels of EU expenditure due to the availability of funding at national level. Further, IFIs do not introduce additional risk into the EU budget over the level of the initial investment, but may increase risks for Member States, for example through the need to raise revenue for loan repayment when a grant would not need to be reimbursed.[245]

246. The Commission wants private finance to play a more significant role in the next MFF. The Government are willing to explore the greater use of IFIs to replace grants with loans or project bonds, but this is conditional on their use reducing the overall size of the budget.[246]

247. The LGA called for the Government to do more to promote IFIs and argued that loan agreements with the European Investment Bank (EIB) should supplement, but not replace, grant funding. The Institute for European Environmental Policy (IEEP) stated that IFIs offered EAV "by multiplying the effect of EU funds". The EESC was also positive about IFIs potentially strengthening the EU budget, and the NCVO welcomed the prospect that grant finance could be married with loan finance to provide microcredit to social enterprises. However, Marta Andreasen MEP cautioned that IFIs would result in an uneven distribution of risk and reward to the benefit of the private sector, and would reduce transparency unless greater accounting control was written into the system.[247]

248. IFIs are particularly well suited to large-scale projects, such as those that can be expected under the Connecting Europe facility. The EIB has been used to fund such projects, and we previously recommended that, due to its significant expertise, it should be involved in all large-scale projects in which the Commission intends to leverage private investment, although some of the research projects that might be financed by risk-sharing financial instruments may be less-suited to such an EIB role.[248]

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[243] JESSICA (the Joint European Support for Sustainable Investment in City Areas) is an initiative of the European Commission in cooperation with the EIB and the Council of Europe Development Bank. It allows Member States to use some of their ERDF allocations as 'revolving funds', which are invested in public-private partnerships or other projects (e.g. as loans) and result in funds being 'recycled'.

[244] The Commission has estimated that combining EU budget grants with loans from the EIB and other financial institutions had trebled the impact of EU spending (COM(2011)500).

[245] *Mobilising private investment for climate change action in the EU: The role of new financial instruments,* Institute for European Environmental Policy (2011), p.26

[246] Explanatory Memorandum 16301/11

[247] MFF 10, *Mobilising private investment*, MFF 1, MFF 3, MFF 9

[248] *EU Financial Framework*, para. 183

249. Anne Jensen MEP supported the use of project bonds, particularly for infrastructure projects, and the COR called them a "valuable addition" to grant funding. However, the IEEP noted that, given past experience of critical infrastructure projects run by the private sector having been "rescued" by the public sector, there was "a potential excessive risk transfer to the taxpayer". They also highlighted other concerns, such as the recovery of loan and bond values from projects, and the lack of clarity on eligibility criteria.[249]

250. We support the increased use of private finance, but stress that such an approach carries risks for the predictability of EU spending and for efficient and effective funding, which need to be guarded against. We remain of the view that leveraging could be used more widely and effectively if a greater degree of flexibility to move money between headings was available in the MFF. This would help to ensure that large quantities of funding do not lie unused while viable programmes remain unfunded.

251. We recognise the need to revive and expand capital markets in order to finance infrastructure projects, and support the EU project bonds proposal and the Commission's intention to pilot the Europe 2020 Project Bonds Initiative in the current programming period.

252. With regard to IFIs within cohesion policy, critics have pointed out that loan funding could result in complications due to a lack of administrative capacity in some Member States, with consequent uncertainties for servicing and repaying debt, and have suggested that simpler, clearer, more flexible rules were required for such instruments.[250] The Commission has acknowledged these difficulties, and set out a number of new measures to "learn from experience", including providing greater guidance on the use of IFIs and standardised rules for equity and debt instruments.[251]

253. The Government were not opposed to the greater use of IFIs within cohesion policy if they were used to reduce, rather than supplement, the overall size of the budget.[252] There was some enthusiasm from witnesses, such as the NHF, for mechanisms similar to JESSICA to be used more widely.[253]

254. We recognise the value of innovative financial instruments within cohesion funding. However, as we argued previously, the use of innovative financial instruments should proceed with caution, particularly in Member States with limited administrative capacity.

Abatements and correction mechanisms

255. As described in Chapter 1, there are a number of correction mechanisms in place as part of the current MFF. The Commission has proposed to remove the UK's permanent abatement, or rebate, and initiate a system of temporary lump-sum corrections for the UK, Germany, Sweden, and the Netherlands over the next MFF. The Commission has also sought to address the retention of 25 per cent of TOR by Member States by way of collection costs, which it argues constitutes a "hidden correction". It has proposed that,

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[249] MFF 2; *Opinion of the Committee of the Regions*; *Mobilising private investment*
[250] See, for example, *Mobilising private investment* p.33
[251] SWD(2012)36
[252] Explanatory Memorandum 16301/11
[253] Letter from National Housing Federation, 9 December 2011

during the next MFF, Member States should be allowed to retain only 10 per cent of the amounts collected.

256. The Commission's proposal for lump-sum corrections would apply a fixed rate according to Article 2(1)(d) of the proposed new ORD. This fixed rate would mean that the corrections would not take into account policy-related budget expenditure, as the current UK abatement does.[254] According to Article 4(2) of the proposed new ORD, the temporary corrections would provide the four Member States with the following annual gross reductions in GNI contributions:

(i) UK: €3.6bn;

(ii) Germany: €2.5bn;

(iii) The Netherlands: €1.05bn; and

(iv) Sweden: €350mn.[255]

257. The Commission has argued that these simplifications would provide a "transparent and simple" system that would ensure equal treatment of Member States and would be "genuinely open" to public and parliamentary scrutiny. Specifically in regard to the UK abatement, the Commission has suggested that, given the UK's increase in affluence relative to other Member States, the objective conditions underpinning the UK's permanent correction no longer exist, meaning that the correction should be "re-assessed".

258. The justification for the UK's abatement is that, without it, the UK would contribute more than its fair share to EU financing, according to the provisions of the ORD that aims to ensure that no Member State sustains an excessive burden in financing the EU. The cause of this perceived imbalance lies predominantly on the expenditure side, notably spending under the CAP, from which the UK derives relatively less benefit compared with other better-off Member States, such as France. The UK's abatement is accordingly described as a "correction in respect of budgetary imbalances" in the current ORD.[256] We would also note that, although the UK's relative affluence has increased since the permanent abatement was put into place in 1984, the UK's net contributions, despite fluctuations, have steadily increased since this time. In particular, the exclusion from 2009 of non-agricultural expenditure in new Member States has led to a sharp increase in the UK's net contribution, from £3bn in 2008/09 to £9.2bn in 2010/11.[257]

259. As part of our inquiry, we questioned how the Commission's proposals differed from the system in place from 1980 to 1984, when lump sum payments were also made on a temporary basis. Both the Government and the Commission have described the 1980–84 system as "ad hoc", being a sequence of Council decisions.[258] These decisions led to highly variable UK net contributions.[259] **The Commission argued that there were key differences in its new proposal, such as medium-term certainty, but since the UK's net contribution cannot be calculated in advance of the implementation of the annual budget, this cannot be the case.**

254 See paragraph 15.

255 Figures expressed in the Commission's proposals in current prices (COM(2011)510).

256 Article 4 sets out the details of the UK abatement and how it is calculated.

257 *UK-EU Economic Relations*

258 Supplementary written evidence from both

259 The UK's negotiated refunds varied between a nadir of £98mn in 1980 and a peak of £1bn in 1982 (Table 4, *The EU Budget*).

260. The EESC noted that the Commission's proposals could lead to the total removal of national corrective mechanisms in the long term. Anne Jensen MEP asserted that the current system "of horse trading for rebate and derogations" was "a disgrace on Member States". She argued that a fair financing system for the EU budget should not include abatement mechanisms. This echoed the Commission's argument that the absence of a coherent system would lead to a number of other Member States demanding some form of correction. The LGA remarked that it did not appear that the UK rebate was in immediate jeopardy, but agreed with the Government in that it should not be given an "expiration date", but should remain until the disproportionate allocation of funds to the CAP had ceased.[260]

261. **We agree that an ideal EU budget would not involve correction mechanisms. However, the UK abatement and other Member States' corrections are residuals. Their existence is the direct result of the imbalance among Member States in EU spending, especially from the CAP. Their removal must be preceded by significant budgetary reform. We regret that this has not been seen in the current proposals. We therefore repeat our view that the UK abatement is justified and must remain until the CAP is fundamentally reformed.**

262. **This is not to say that we oppose any and all reforms to the corrections system. A generalised corrections mechanism could be viable, as discussed in our previous report,[261] provided that it genuinely respects the principle of preventing excessive budgetary burdens.**

263. The Commission also argued that the UK abatement created undesirable and "intrinsically perverse economic incentives", such as discouraging applications for structural funds that required co-financing or disincentivising an application for EU aid following a catastrophe because such aid would be subject to an "automatic cancelling out" through a decrease in the correction.[262]

264. We put this question to the Government, and they told us that "in strict financial terms, the UK derived a net benefit from EU expenditure in the UK", concluding that "the UK Government does not consider the abatement a disincentive for implementation of EU funds". They noted that there was no abatement on domestic financing that was used to match EU funds, but stated that they intended fully to draw down on the UK's structural funds allocation from the current MFF.[263]

265. **We acknowledge that the UK abatement might in principle affect the UK's application for and use of EU funds, which would be undesirable. However, we do not consider that this has taken place to any significant extent. We reiterate our view that problems surrounding the correction mechanisms in the MFF must be addressed from the expenditure side.**

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[260] MFF 1, MFF 2, MFF 10

[261] *EU Financial Framework*, paras. 233–234

[262] Supplementary written evidence?

[263] MFF 11

CHAPTER 9: SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter 2: Principles

European added value

266. We previously concluded that "the MFF negotiation provides an opportunity to move EU spending closer to European Added Value, and this should be the Government's objective". We remain of this view. The various elements of the MFF ought to be negotiated on their objective merits, and a focus on added value can assist in making this happen. National interest in protecting funding streams should not be a block to increasing the impact of EU funding, in any area of the MFF. (paragraph 29)

Europe 2020

267. The Commission are right to identify achieving the Europe 2020 strategy as an objective of the next MFF, but this must be balanced with the need to fund other EU priorities, such as protecting biodiversity, and the area of freedom, security and justice. Such balance is necessary so that the EU can respond clearly and collectively to the principal challenges facing it today. (paragraph 33)

268. We highlight the need to consider spending on the Europe 2020 goals in the context of EAV; Europe 2020 is an EU-level strategy but does not necessarily demand EU-level spending. Alternative EU policy instruments, such as voluntary guidelines or policy coordination may be more appropriate tools in some cases. (paragraph 34)

Budget size

269. We previously recommended that the MFF be negotiated and prepared with the same approach and rigour as a business plan. We remain of this view. In a time when restraint is necessary, action should be taken to ensure that the MFF accurately represents funding needs. We would favour greater focus on underspends from the current MFF to inform negotiations and help deliver restraint in the EU budget. (paragraph 41)

270. The EU budget cannot be exempt from efforts to restrain public spending. We repeat our call for the next MFF not to grow in real terms, with spending to be reprioritised to focus on growth-enhancing areas such as infrastructure, as the EU's long-term prosperity depends on a balance of budgetary discipline and economic growth. It is incumbent upon Member States and the Commission to ensure that austerity does not reduce European Added Value at a time when it is most needed. (paragraph 42)

271. We are disappointed that the euro area crisis has not stimulated more radical thinking about what policies, supported by what budgets, the EU needs to meet the immense challenges it now faces, particularly in achieving the very difficult task of stimulating sustainable economic growth while progressively reducing excessive budget deficits. We note with disappointment what Figure 1 clearly shows: the Commission's proposals are little more than cosmetically different from the pattern of expenditure in the current MFF, despite the radically changed economic circumstances in which the Union finds itself. In this report, we set out our proposals for a significant rebalancing of expenditure. (paragraph 43)

272. We urge the Commission, the Government, and commentators to think carefully about the figures that are used in discussing this crucial piece of EU policy. (paragraph 44)

Chapter 3: Cohesion

Purpose of cohesion funding

273. We support the proposed introduction of the transition region category, provided that this allows for more appropriate targeting of funding and leads to a more nuanced approach to meeting regional development needs. (paragraph 53)

274. There are strong arguments for cohesion policy being targeted at poorer Member States, and for cohesion policy to operate at a pan-European level. However, the ultimate aim of EU cohesion policy is "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions", many of which will be in the poorer Member States. We remain convinced that the European Social Fund is of benefit throughout the Union, but are of the view that other funds, such as the European Regional Development Fund, should be further targeted at poorer Member States with a view to withdrawing it from better-off Member States in the long term. (paragraph 55)

275. We recognise the importance of the Europe 2020 objectives, many of which dovetail with the traditional mission of cohesion policy. However, cohesion policy is not merely a delivery tool for Europe 2020. We caution against the core aim of cohesion policy being undermined by an unremitting focus on meeting the Europe 2020 objectives. The distinct identity and fundamental objective of cohesion, enshrined in the Treaty as a permanent core objective of the Union, must be safeguarded. (paragraph 58)

276. As an expression of EU solidarity, cohesion policy is one of the most important elements of the MFF when it comes to improving public awareness of EU action, an important aspect of the MFF that needs to be maintained. (paragraph 59)

Cohesion funds in difficult economic times

277. The economic context of this MFF has strengthened our belief that cohesion policy should play a more defined role in helping Member States in financial difficulties to address structural weaknesses and competitiveness challenges. There is a role for cohesion policy as an effective and necessary counterbalance to the effects of austerity measures. (paragraph 64)

278. We support the overall envelope proposed for cohesion funding. Cohesion policy has an important role to play in improving growth, and in the context of a rigid seven-year framework, it is vital that funding remains available to meet changes in the economic climate. (paragraph 65)

Structure of cohesion funding

279. The Commission's proposals represent a much-needed attempt to improve the impact and effectiveness of EU funds and to encourage a more strategic approach. We support the simplifications and improved synergies offered by the proposed Common Strategic Framework. (paragraph 69)

280. We recognise the case for thematic concentration on a smaller number of priorities, but remain to be convinced that the Commission's proposals ensure sufficient flexibility for regions and local authorities to focus

investment on their own development needs. We urge the Government to ensure that the UK's Partnership Contract retains sufficient flexibility to allow further tailoring through Operational Programmes at the regional level. (paragraph 72)

Conditionality

281. We endorse the Commission's proposal to enhance the effectiveness of cohesion policy by proposing a series of conditions to the granting and use of cohesion funding. However, we have concerns about the appropriateness of macroeconomic conditionality tools since withdrawing EU funding from an ailing economy might in some circumstances only make matters worse. (paragraph 76)
282. We remain convinced that a performance reserve could be beneficial, if implemented correctly. However, we agree with the Government that the 2019 date for allocation of funding is too late to have any meaningful impact, and call for the final review and allocation of funds to be brought forward. We call on the Government to ensure that there is clarity and understanding at national, regional, and local level regarding the impact of a performance reserve. (paragraph 80)
283. We support a combination of *ex ante* conditionality and a performance reserve designed and implemented at national level that incorporates targets focused on the objectives of the funding and relevant to the context of the programme. (paragraph 81)

Chapter 4: Agriculture, fisheries, climate change and the environment

Common Agricultural Policy and rural development

284. We welcome the Risk Management Toolkit and the proposal for making available financial support to cover premiums for crop, animal and plant insurance against economic losses. (paragraph 92)
285. We recognise that the risk management tools proposed may be intended to serve different purposes. However, we urge the Government to look closely at the range of measures proposed as offering possible scope for budget savings in this area. (paragraph 94)
286. We welcome the prominence given to the issues of knowledge transfer between research and agriculture in Pillar II. We also welcome the inclusion of a new article on cooperation and the establishment of the European Innovation Partnership, provided that the partnership and its operations are founded on effective, action-based cooperation. (paragraph 96)
287. We are sceptical that the proposals for CAP reform will deliver the intended environmental benefits. Pillar I payments should be made in return for delivery of public goods, responding to climate change, and protecting biodiversity. The "one size fits all" approach of the Pillar I greening proposal is too inflexible. We would prefer to see greening measures identified at national or regional level, building on the cross-compliance requirements and recognising substantial efforts already made by farmers. (paragraph 100)
288. We reiterate our view that evolutionary change of the CAP is more likely to succeed than any radical approach. However, we are disappointed that the Commission's proposals largely represent the status quo in terms of agricultural spending. (paragraph 104)
289. Greater efforts must be made to reduce the CAP budget, and to begin phasing out direct payments and reorientating the CAP towards actions that

offer higher European Added Value and greater value for money. It is clear to us that, in the light of current economic challenges, new approaches are required. We strongly regret that the opportunity appears to have been missed to introduce them. The risk of even greater disruption to European economies cannot be ignored. We urge the Government to take into account the consequent need for flexibility while negotiating the new MFF. (paragraph 105)

290. While the Commission's proposal to more than double funding for investment in agricultural research is welcome, the failure to make any substantial reduction in the overall CAP budget is disappointing. We urge the Government to argue for greater cuts to Pillar I and more ambitious transfer of funds to Pillar II. (paragraph 106)

Fisheries and maritime policy

291. A number of measures within the European Maritime and Fisheries Fund support welcome reform of the Common Fisheries Policy. However, other aspects appear tangential, such as support for inland fisheries and boosting aquaculture. We are concerned that the Maritime and Fisheries Fund is too broad and insufficiently targets funds towards key conservation objectives, such as discard reduction. The instrument should be narrowed to make clear that money will not be spent on infrastructure and aquaculture at the expense of conservation. (paragraph 109)

292. We consider that the increased budget for the Maritime and Fisheries Fund could be justified if the appropriate focus is attained. It is important that all Member States take seriously the need to reform the sector, and recognise that diversification away from fisheries will be necessary in some instances. (paragraph 110)

293. We support the provision of limited funding to support better transnational cooperation between sectors reliant on the maritime environment but consider that the Commission's current proposal is over-generous. Further analysis should be carried out to identify whether the entire proposed budget is necessary. (paragraph 111)

Climate change and the environment

294. We support the distinct Sub-Programme for Climate Action and consider that there is a strong case for an increased budget for the LIFE programme in order to address the challenges of biodiversity loss and climate change. (paragraph 116)

295. We previously recommended that climate change policies be mainstreamed throughout EU funding instruments alongside a fund devoted to climate-change projects of EU interest. We support the Commission's proposals, which reflect this approach. However, we also observed that, for mainstreaming to work effectively, the Climate Action Commissioner would require a strategic overview across policy areas. We are disappointed that no such mechanism has been proposed. We repeat this recommendation in the interests of promoting strategic use of funds in targeting key climate change objectives, and urge the Government to advocate this approach. (paragraph 117)

Chapter 5: Infrastructure and innovation

Connecting Europe

296. We appreciate the importance of EU-level action on cross-border infrastructure; however, the proposed budget will be difficult to accommodate within the MFF without radical reallocation of funds away from the CAP. We therefore call for a strategic review of the Connecting Europe facility, with European Added Value as the guiding principle, but noting that public investment should only be deployed where the market has failed to act. (paragraph 124)

297. The balance between transport, energy and telecommunications spending should be a key question within a strategic review of the Connecting Europe facility. There are pressing needs across all sectors, and a focus on transport in the past does not necessarily demand the same today. We urge a greater focus on energy and telecommunications over the course of the next MFF, although there should always be a preference for direct private funding rather than subsidy from the EU budget. (paragraph 126)

298. We support the Commission's aim to increase private-sector involvement to leverage public infrastructure investment. However, we would advocate a focus on substituting, rather than supplementing, EU funding where appropriate. As with all jointly funded projects, risks and rewards must also be properly apportioned between the public and private sectors. (paragraph 128)

299. We accept the Commission's role regarding the oversight and coordination of infrastructure development. However, as the Connecting Europe proposal develops, it will be essential that national competences are fully respected. (paragraph 131)

Horizon 2020

300. We are broadly supportive of the structure and aims of the Horizon 2020 proposal. If implemented correctly, Horizon 2020 could significantly reduce bureaucracy in the research field and help to foster innovation amongst SMEs. Furthermore, the enhanced role for the European Research Council will keep the focus on European Added Value and research-led excellence, which must be at the core of any EU research programme. (paragraph 135)

301. We do not agree with the Government that the proposed level of spending is "unrealistic"; however, we agree that Horizon 2020 should receive a larger proportion of a smaller budget. Spending must be reprioritised to focus on growth-enhancing areas where EU funding can add most value, and spending on research clearly meets this description. We call strongly for increased budgetary provision on innovation and research to be supported at the expense of other areas, such as the CAP. We also urge the Government to do more to promote and facilitate industry's access to Horizon 2020 funds. (paragraph 138)

302. The interim review of the Seventh Framework Programmes for Research and Technical Development noted the relatively low success rates of some lower-income Member States when bidding for EU research funds, and highlighted the role of cohesion policy in raising research and innovation capacity. We therefore support efforts to achieve greater alignment between Horizon 2020 and cohesion policy instruments while retaining the important distinction between the two. (paragraph 140)

COSME

303. We support the COSME programme in principle. However, we are concerned at both the level of funding proposed, and the instrument's focus on tourism. In addition to the value offered by the tourism sector, it is important to recognise the many other sectors characterised by a high proportion of SMEs and a high level of growth potential. (paragraph 144)
304. Like the Government, we remain to be convinced that COSME's loan guarantee facility offers added value and does not simply replace national authorities' schemes. (paragraph 146)

Chapter 6: Other expenditure lines

Education and culture

305. Erasmus for All is an important proposal. We welcome the Commission's efforts to streamline and simplify the numerous existing programmes. Although we note the Government's position regarding budgetary restraint, we consider that this programme merits a larger proportion of the next MFF. Life-long learning is key for long-term growth. (paragraph 152)
306. In our report *Grassroots Sport and the European Union*, we recommended a dedicated funding programme for sport under the next MFF. Therefore, we welcome the proposed sport sub-programme. We stand by our previous recommendation that funds should be allocated to improving dialogue with sports stakeholders, and we urge the Government to rethink their opposition on this point. (paragraph 153)
307. The cultural and creative sectors' contribution to the EU is fundamentally important. We heard compelling evidence that the increased budget proposed by the Commission for Creative Europe would stimulate job-creation and growth in line with the Europe 2020 strategy. In the context of domestic funding cuts for these sectors, and UK organisations' obvious capacity for attracting EU funding, we call for the Government to support a proportionately larger budget allocation to this area, which represents only a very small proportion of the total MFF. (paragraph 157)
308. We also call on the Government to reconsider its position regarding the proposed financial facility in the Commission's Creative Europe proposal. Businesses in the cultural and creative sectors often experience greater difficulty in attracting investment than their counterparts in other sectors. The Commission's proposed financial facility could offer an important bridging mechanism between these sectors and private-sector investment. (paragraph 158)

Security and citizenship

309. It is difficult to assess the "right" amount of EU spending on Justice, Rights and Citizenship. We consider that the level of EU activity from 2014 to 2020 should be broadly the same as that in 2013. Consequently, the spending level in 2013 should be maintained in real terms. Savings should be found from elsewhere within the MFF in order to fund this small increase. If necessary, spending on Justice should have a higher priority than the Citizenship programme. (paragraph 167)
310. We repeat our call for the importance of communicating the work of the EU to citizens to be recognised in the MFF. The Europe for Citizens programme is linked to this important objective. We support the proposed aims of

Europe for Citizens and would support a proportionately larger budget for the programme within a reduced MFF. (paragraph 168)

311. We cannot support the Government's suggestion that any increase in funding for Justice and Home Affairs programmes must come from elsewhere in the JHA budget. This appears to be inconsistent with the Government's long-term approach to the MFF, which emphasises reprioritisation to support key budget lines. We would support modest increases in some aspects of EU home affairs work, such as the work of Europol and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), provided these could be funded from savings elsewhere in the MFF. As we have previously concluded, a Cybercrime Centre is essential, but cannot be funded at the expense of other parts of the home affairs budget. Funding must be found from elsewhere in the MFF for this vital Centre. (paragraph 174)

312. We stress that, due to increased activity in this relatively new area of the EU budget, comparisons with Justice and Home Affairs budgets of earlier years are meaningless. Although we do not support the Commission's proposed budget for Justice and Home Affairs, funding in the next MFF should not fall below that at the end of the current MFF period in real terms. (paragraph 175)

313. We support the proposed simplification of funds within Heading 3. However, we agree with the Government that a merger between Fiscalis 2013 and Customs 2013 is undesirable, and we remain unconvinced by the case for the proposed budget increase. (paragraph 178)

314. In our report *Healthcare Across EU Borders*, we concluded that the Commission and Member States should not underestimate the challenge of the task of increasing the interoperability of patient registers. This aspect of the e-Health proposal is premature and overly ambitious. Funding in this area should be restricted to that necessary to support a feasibility assessment. (paragraph 183)

315. We previously emphasised the importance of a safe pathway of care and the value of cooperation between service providers through European reference networks. We are in favour of these being supported by the Health for Growth programme. Health promotion is an area that we consider is given insufficient prominence in the Programme. (paragraph 184)

316. The Consumer Programme is a valuable addition to the policy area, and we see scope for the further development of consumer digital rights. The European Consumer Centre is important for UK consumers, and the network should continue to be well funded. (paragraph 188)

317. Budget reductions may be possible in relation to training national consumer organisations and awareness-raising campaigns on consumer issues. However, programmes such as RAPEX and increasing the awareness of rights with regard to the digital single market offer particular added value. We support the funding proposed in this area. (paragraph 189)

External relations

318. We welcome the Commission's efforts to increase the flexibility and agility of funds within Heading 4, as well as the significant simplifications and standardisations of the existing complicated and variable processes. Given these improvements, we are sceptical about the need for the additional year-

on-year marginal increases proposed by the Commission for the purpose of delivering increased flexibility. (paragraph 195)

319. We considered the question of bringing the European Development Fund "on-budget" in 2004, and in our previous MFF inquiry in 2011. We again emphasise the clear advantages that would be offered if the Development Fund were brought within the MFF, including bringing greater coherence to EU aid, and simpler aid procedures. We urge the Government to negotiate particularly for the EDF to be brought "on-budget". (paragraph 196)

320. We believe that it would be simpler, and potentially more coherent, for the European External Action Service to have a separate, ring-fenced budget. If this cannot be achieved in the current MFF negotiations, we would welcome an indication in the eventual agreement of how much of Heading 5 has been earmarked for the EEAS. (paragraph 199)

Administration

321. We recognise the efforts that the Commission are making to bring the administrative costs of the EU institutions more in line with those of Member States and appreciate the importance of preventing a "capacity deficit" within the EU institutions. However, we agree with the Government that more must be done in this area to reflect the difficult decisions being taken at national level, which is important from a public perspective. In the longer term, we urge the Commission to consider again some of the institutional practices of the EU in order to achieve further administrative efficiencies. (paragraph 205)

322. Although we support the Commission's efforts to cut the Administration budget for each of the EU bodies, we reiterate that funding for the EU courts must increase during the next MFF period to enable the courts to handle an increasing workload. This increase should be funded from savings elsewhere in the Administration budget. (paragraph 207)

Chapter 7: Shape and flexibility of the MFF

Large-scale projects

323. We are deeply concerned at the continued funding of Galileo, a project beset by repeated delays and cost overruns, particularly as the Commission's proposals double funding levels. There are opportunities for growth in the space sector, both in infrastructure construction and service development, but Galileo is not the right project to seize these opportunities. Despite the money and political capital already invested in Galileo, we would call for the project to be brought to an end. If it is to continue, the revision of governance is welcome, as it offers greater potential for expert management. (paragraph 213)

324. We are concerned that the Commission proposes placing ITER and GMES off-budget in the next MFF. The transparency and accountability afforded by the MFF negotiating process is an important element in ensuring the robust management of large projects, even though we recognise that ITER is an international commitment. Moving significant levels of spending off-budget creates the impression of opacity and should be resisted. We are not persuaded by the Commission's argument and would prefer to see greater flexibility within the MFF in order to avoid placing programmes "off-budget". (paragraph 217)

Other funds

325. We are concerned about the proposal to move the Solidarity Fund outside the MFF. However, we support the Commission's proposals to speed up the process of agreeing and making available financial assistance in so far as these are consistent with exercising overall budgetary restraint. (paragraph 221)

326. We acknowledge the case for some form of crisis intervention instrument in the event of large-scale redundancies. However, we are not convinced that the European Globalisation Adjustment Fund is the most effective means by which to provide such support. We see merit in the Government's suggestion that the European Social Fund could meet the purposes of the Globalisation Adjustment Fund, and we would encourage further review of the ESF in this context, perhaps with a view to incorporating a contingency fund within the current Fund. (paragraph 224)

Flexibility within the MFF

327. Flexibility and sound financial governance are not mutually exclusive, and the MFF should strive to offer both via controlled mechanisms for moving funds within Headings in order to allow reprioritisation over the course of the MFF. (paragraph 227)

328. We remain of the view that the current MFF has proven too inflexible, and that steps must be taken to remedy this. We repeat our call for the MFF to move to a five-year programme. (paragraph 228)

329. We would again emphasise that, in the light of current economic challenges, new approaches are required. We strongly regret that the opportunity appears to have been missed to introduce them. The risk of even greater disruption to European economies cannot be ignored. Were this to materialise, there could be calls on the EU budget that could not easily be met from the principal budget lines, such as the CAP or cohesion policy. We urge the Government to take into account the consequent need for flexibility while negotiating the new MFF. (paragraph 229)

Chapter 8: Income and corrections

Financial Transaction Tax proposal

330. We consider that the Commission has failed to make a case for an EU-wide Financial Transaction Tax. We also find the Commission's proposal that an FTT provide funding for the EU budget unsuitable on two further grounds. First, it is likely to fall disproportionately on a minority of Member States, and especially the UK, which could account for 71 per cent of overall revenue under the Commission's proposal. Second, we cannot identify any genuine link between EU policy objectives, such as those of Europe 2020, and an FTT, and so find that the proposed tax fails to be a suitable own resource on the Commission's own criteria. (paragraph 238)

VAT-based own resource proposal

331. We are concerned that a VAT-based own resource is not appropriate for funding the EU budget. The complexity of the VAT-based own resource, and the Commission's own statement that it offers no European Added Value over the GNI-based resource, may make it preferable for it to be removed entirely, which could bring relatively small, although welcome, savings by reducing the administrative costs of collection. This need not necessarily prejudice the UK abatement, although we acknowledge that determining a new base for calculating the abatement might require a difficult negotiation. We

nevertheless urge the Government to give further thought to this possibility as part of their response to the own resources proposals. (paragraph 243)

Innovative financial instruments and leveraging

332. We support the increased use of private finance, but stress that such an approach carries risks for the predictability of EU spending and for efficient and effective funding, which need to be guarded against. We remain of the view that leveraging could be used more widely and effectively if a greater degree of flexibility to move money between headings was available in the MFF. This would help to ensure that large quantities of funding do not lie unused while viable programmes remain unfunded. (paragraph 250)

333. We recognise the need to revive and expand capital markets in order to finance infrastructure projects, and support the EU project bonds proposal and the Commission's intention to pilot the Europe 2020 Project Bonds Initiative in the current programming period. (paragraph 251)

334. We recognise the value of innovative financial instruments within cohesion funding. However, as we argued previously, the use of innovative financial instruments should proceed with caution, particularly in Member States with limited administrative capacity. (paragraph 254)

335. The Commission argued that there were key differences in its new proposal, such as medium-term certainty, but since the UK's net contribution cannot be calculated in advance of the implementation of the annual budget, this cannot be the case. (paragraph 259)

Abatements and correction mechanisms

336. We agree that an ideal EU budget would not involve correction mechanisms. However, the UK abatement and other Member States' corrections are residuals. Their existence is the direct result of the imbalance among Member States in EU spending, especially from the CAP. Their removal must be preceded by significant budgetary reform. We regret that this has not been seen in the current proposals. We therefore repeat our view that the UK abatement is justified and must remain until the CAP is fundamentally reformed. (paragraph 261)

337. This is not to say that we oppose any and all reforms to the corrections system. A generalised corrections mechanism could be viable, as discussed in our previous report, provided that it genuinely respects the principle of preventing excessive budgetary burdens. (paragraph 262)

338. We acknowledge that the UK abatement might in principle affect the UK's application for and use of EU funds, which would be undesirable. However, we do not consider that this has taken place to any significant extent. We reiterate our view that problems surrounding the correction mechanisms in the MFF must be addressed from the expenditure side. (paragraph 265)

APPENDIX 1: MEMBERSHIP AND INTERESTS

Declarations of Interest by the European Union Committee

Lord Carter of Coles
Member of Efficiency and Reform Board
Farm and farmland in Hertfordshire
Director, Primary Insurance Group Ltd (Insurance Broking and Underwriting)
Advisor, Warburg Pincus (Private Equity)

Lord Hannay of Chiswick
Member Advisory Board, Centre for European Reform

Lord Jopling
Partner in farming business in receipt of funds under the Common Agricultural Policy

The Earl of Sandwich
Life Tenant of trust receiving income from the Common Agricultural Policy through single farm payments and countryside stewardship schemes

Lord Teverson
Member of Cornwall Council
Member of Cornwall & Scilly Local Enterprise Partnership

The members of the Sub-Committee on Economic and Financial Affairs and International Trade are:

Lord Flight
Lord Harrison (Chairman)
Lord Hamilton of Epsom
Lord Haskins
Baroness Hooper
Lord Jordan
Lord Kerr of Kinlochard
Baroness Maddock
Lord Marlesford
Lord Moser
Lord Vallance of Tummel
Lord Woolmer of Leeds

Declarations of Interest of the Sub-Committee on Economic and Financial Affairs and International Trade

Lord Hamilton of Epsom
Non-Executive Director, Jupiter Dividend and Growth Trust PLC
Director, IREF Global Holdings (Bermuda) Ltd
Non-Executive Director, IREF Australian Holdings (Bermuda) Ltd

Lord Kerr of Kinlochard
Director, Royal Dutch Shell plc
Director, Rio Tinto
Director, Scottish Power
Director, Scottish American Investment Co Ltd
Adviser, Edinburgh Partners
Chairman, Centre for European Reform

Lord Marlesford

Adviser to Sit Investment Associates Minneapolis (USA)
Independent National Director, Times Newspapers Ltd
Director, Gavekal Research (Hong Kong)

Lord Vallance of Tummel

Member Supervisory Board Siemens AG (engineering and services)
Member International Advisory Board Allianz SE

The members of the Sub-Committee on Internal Market, Energy and Transport are:

Lord Bradshaw
Lord Brooke of Alverthorpe
Lord Clinton-Davis
Lord Fearn
Lord Haskel
Lord James of Blackheath
Baroness O'Cathain (Chairman)
Lord Plumb
Lord Rowe-Beddoe
Lord Ryder of Wensum
Baroness Valentine
Lord Walpole

Declarations of Interest of the Sub-Committee on Internal Market, Energy and Transport

Lord Clinton-Davis

Honorary Life President (retired), British Airline Pilots Association

Baroness Valentine

Non executive Board Member, Triplepoint (venture capital trust which invests in small companies)
Chief Executive, London First (business membership organisation with members from a range of London business sectors, including higher education, transport and ICT)

The members of the Sub-Committee on Foreign Affairs, Defence and Development are:

Baroness Bonham-Carter of Yarnbury
Lord Inge
Lord Jay of Ewelme
Lord Jones
Lord Jopling
Lord Lamont of Lerwick
Lord Radice
Lord Selkirk of Douglas
Lord Teverson (Chairman)
Lord Trimble
Lord Sewel
Lord Williams of Elvel

The members of the Sub-Committee on Agriculture, Fisheries and Environment are:

The Earl of Arran
Baroness Byford
The Earl of Caithness
Lord Cameron of Dillington
Lord Carter of Coles (Chairman)
The Earl of Dundee
Lord Giddens
Baroness Howarth of Breckland
Lord Lewis of Newnham
Baroness Parminter
Baroness Sharp of Guildford

Declarations of Interest of the Sub-Committee on Agriculture, Fisheries and Environment

The Earl of Arran
Married to a Farmer in Devon

Baroness Byford
Receives single farm payment from the Common Agricultural Policy

The Earl of Caithness
Trustee and Company Director of Trust and Company which own agricultural land
Trustee, Institute for Public Policy Research

Lord Cameron of Dillington
A Farmer and owner of agricultural land with a mix of income from Food, Forestry and Energy in commercial and domestic property
Chair of The Strategic Advisory Board of the Government's Global Food Strategy Programme
Director of The Royal Bath and West Society
Chair of an Internet Travel Company

Baroness Parminter
Charity Consultant (non-practising)
Trustee, Institute for Public Policy Research

The members of the Sub-Committee on Justice and Institutions are:

Lord Anderson of Swansea
Lord Blackwell
Lord Bowness (Chairman)
Lord Boyd of Duncansby
Lord Dykes
Lord Elystan-Morgan
Lord Maclennan of Rogart
Baroness O'Loan
Lord Renton of Mount Harry
Lord Rowlands
The Earl of Sandwich
Lord Temple-Morris

The members of the Sub-Committee on Home Affairs are:

Lord Avebury
Lord Blencathra
Lord Dear
Baroness Eccles of Moulton
Lord Hannay of Chiswick (Chairman)
Lord Hodgson of Astley Abbots
Lord Judd
Lord Mackenzie of Framwellgate
Lord Mawson
Lord Richard
Lord Tomlinson
Lord Tope

The members of the Sub-Committee on Social Policies and Consumer Protection are:

Viscount Bridgeman
Lord Cotter
The Earl of Courtown
Lord Eames
Lord Foulkes of Cumnock
Baroness Henig
Lord Lexden
Baroness Prosser
Baroness Scott of Needham Market
Lord Skidelsky
Lord Whitty
Baroness Young of Hornsey (Chairman)

A full list of registered interests of Members of the House of Lords can be found at http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests/

APPENDIX 2: LIST OF WITNESSES

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with * gave both oral evidence and written evidence. Those marked with ** gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Evidence heard by the Sub-Committee on Internal Market, Energy and Transport

This evidence is published online at http://www.parliament.uk/hleub and is available for inspection at the Parliamentary Archives (020 7219 5314).

**	QQ 1–37	Mike Glycopantis, Simon Towler, Katrina McLeay and Verna Cruickshank

Evidence heard by the Sub-Committee on Economic and Financial Affairs and International Trade

This evidence is published online at http://www.parliament.uk/hleua and is available for inspection at the Parliamentary Archives (020 7219 5314).

*	QQ 38–49	Professor John Bachtler

Evidence heard by the Select Committee

This evidence is published online at http://www.parliament.uk/hleu and is also available for inspection at the Parliamentary Archives.

*	QQ 50–65	Hervé Jouanjean and Johan Ureel (European Commission)
*	QQ 66–105	Mike Glycopantis, Alex Skinner and Brendan Bayley (Her Majesty's Treasury)

Evidence heard by the Sub-Committee on Social Policies and Consumer Protection

This evidence is published online at http://www.parliament.uk/hleug and is available for inspection at the Parliamentary Archives (020 7219 5314).

**	QQ 1–27 (Sub-Committee G) Ed Vaizey MP
**	QQ 28–48 (Sub-Committee G) Ann Branch, Agnieszka Moody, and Yvette Vaughan Jones
**	QQ 70–91 (Sub-Committee G) David Willets MP (evidence heard as part of the inquiry into the modernisation of higher education in the EU)

Alphabetical list of all witnesses

	Professor Robert Ackrill (MFF 5)
	Marta Andreasen MEP (MFF 9)
*	Professor John Bachtler
*	Brendan Bayley
**	Ann Branch, DG Education and Culture
	Business for New Europe (MFF 4)
**	Verna Cruickshank
	Convention of Scottish Local Authorities (MFF 6)
	DG Budget (MFF 8)

European Economic and Social Committee (MFF 1)
* Mike Glycopantis
Mark Hoban MP, Financial Secretary to HM Treasury (MFF 11)
Anne E. Jensen MEP (MFF 2)
* Hervé Jouanjean, DG Budget
Local Government Association (MFF 10)
** Katrina McLeay
** Agnieszka Moody, Media Desk UK
National Council for Voluntary Organisations (MFF 3)
Dr. Jorge Nunez Ferrer (MFF 7)
* Alex Skinner
Professor Daniel Tarschys (MFF 7)
** Simon Towler
* Johan Ureel
** Ed Vaizey MP
** Yvette Vaughan Jones, Visiting Arts

Evidence heard by the Select Committee in its previous inquiry

Alphabetical order

Ackrill, Robert, Professor of European Economics and Policy, Nottingham Trent University (EUFF 2)

Andreasen MEP, Marta (EUFF 10)

Ashworth MEP, Richard (EUFF 19)

Bukovskis, Karlis, Research Fellow, Latvian Institute of International Affairs (EUFF 12)

Convention of Scottish Local Authorities (EUFF 9)

European Economic and Social Committee Section for Economic and Monetary Union, Economic and Social Cohesion (EUFF 3)

Franklin, Sir Michael (EUFF 5)

Friends of the Earth (EUFF 1)

Greater London Authority (EUFF 15)

Greening MP, Justine (EUFF 17)

Haug MEP, Jutta (EUFF 7)

Higher Education European Funding Services Ltd (EUFF 14)

Institute for European Environmental Policy (EUFF 23)

Jensen MEP, Anne (EUFF 13)

Lewandowski, Janusz (EUFF 22)

Local Government Association (EUFF 8)

McCarthy MEP, Arlene (EUFF 11)

National Farmers' Union (EUFF 20)

North West Regional European Partnership (EUFF 6)

Scottish Government (EUFF 18)

Scottish Parliament European and External Relations Committee (EUFF 21)

National Assembly for Wales' European & External Affairs Committee (EUFF 25)
Third Sector European Network (EUFF 4)
UK Delegation to the Committee of the Regions (EUFF 16)
UK Higher Education Europe Unit (EUFF 24)

APPENDIX 3: CALL FOR EVIDENCE

The European Union Select Committee of the House of Lords, chaired by Lord Roper, has launched a short inquiry into the proposals set out in the Commission's proposal *A budget for Europe 2020*, and associated documents. The inquiry follows on from the Committee's previous inquiry and report, *The EU Financial Framework from 2014*, which was published in April.

Written evidence is sought by 15 December 2011. The Committee would be interested to hear again from contributors to its previous inquiry into the Financial Framework who wish to amend or affirm their previous evidence, and of course from other contributors with an interest in the subject. Public hearings with a small number of witnesses will be held in January 2012. The Committee aims to report to the House, with recommendations, by the end of March 2012. The report will contribute to the debate on the Multiannual Financial Framework; receive a formal response from the Government; and will be debated in the House of Lords.

Background

On 29 June 2011 the European Commission published *A Budget for Europe 2020*. In July the Treasury published an Explanatory Memorandum, giving the UK Government's views.[264] Detailed spending packages relating to specific policy areas are being published by the Commission throughout the autumn.

Once agreed, the proposals will form the European Union's Multiannual Financial Framework (MFF) from 2014 to 2020. They therefore have critical policy implications for the EU's activities over the later part of this decade. The Committee intend to scrutinise the Commission's proposals and the Government's position on them, considering issues such as: the overall size and shape of the budget; the allocation of funds between and within the main policy areas; how the necessary revenue should be raised; and the impact proposed changes might have on the UK economy and the UK public.

Issues

The Committee seeks evidence on any aspect of this topic, and particularly on the following questions. We would welcome submissions that focus on only some of these questions.

1. Are the Commission's proposed expenditure ceilings appropriate, taking into account the pressures on so many Member States to pursue fiscal consolidation?

2. What is the most appropriate basis for comparing the Commission's proposals with current expenditure?

3. What benefits, both financial and practical, will be derived from the Commission's proposals for simplification, particularly through the use of common strategic frameworks in research policy (Horizon 2020) and regional policy? Is the Commission's approach strategically justified, or is it a mere merging of funds? How can the approach be made to work in practice?

4. Is the proposed distribution of funds between and within the five main expenditure headings right? In particular, do the proposals offer enough to fulfil the aims of the Europe 2020 strategy? If you call for more spending in one area,

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[264] http://europa.eu/press_room/pdf/a_budget_for_europe_2020_en.pdf
http://europeanmemorandum.cabinetoffice.gov.uk/memo_details.aspx?memoID=4498

please say whether you would expect a net increase or an offsetting saving elsewhere.

5. Do the proposals live up to the aims set out in the Commission's *Budget for Europe 2020* of: focus on delivering key policy priorities; focus on EU added value; focus on impacts and results; and delivering mutual benefits across the EU?

6. What is your assessment of the Commission's proposals for expenditure outside the MFF framework?

7. What is your assessment of the Commission's proposals to grant the EU more 'own resources' and of the choices advocated (a new VAT resource and/or a financial transactions tax)?

8. What is your assessment of the likely impacts of the Commission's proposed restructuring of abatement mechanisms on the UK or other net contributors?

9. What is your assessment of the innovative financing instruments proposed by the Commission?

10. What effects could the development of the Eurozone, in response to the Euro area crisis, have on the future EU budget?

The inquiry will not address the budget implications of EU enlargement, nor financial management.

The Committee would be interested to hear again from contributors to its previous inquiry into the Financial Framework who wish to amend or affirm their previous evidence in relation to the questions above or otherwise, and of course from other contributors with an interest.

15 November 2011

APPENDIX 4: GLOSSARY OF TERMS

BNE	Business for New Europe
CAP	Common Agricultural Policy
CEF	Connecting Europe facility
CEPS	Centre for European Policy Studies
CFP	Common Fisheries Policy
CFSP	Common Foreign and Security Policy
CIP	Competitiveness and Innovation framework Programme
	Commitment
	The sum of money pledged in order to pay for a fund, programme or appropriations project
COR	Committee of the Regions
COSLA	Convention of Scottish Local Authorities
COSME	Competitiveness of enterprises and SMEs programme
CSDP	Common Security and Defence Policy
CSF	Common Strategic Framework
EAFRD	European Agricultural Fund for Regional Development
EAV	European Added Value
ECC	European Consumer Centre
EDF	European Development Fund
ECJ	European Court of Justice
EEAS	European External Action Service
EESC	European Economic and Social Committee
EFF	European Fisheries Fund
EGF	European Globalisation Adjustment Fund
EIB	European Investment Bank
EIP	European Innovation Partnership
EIT	European Institute of Innovation and Technology
EMFF	European Maritime and Fisheries Fund
ERC	European Research Council
ERDF	European Regional Development Fund
ESF	European Social Fund
FP7	Seventh Framework Programmes for research and technical developments
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
GLA	Greater London Authority
GMES	Global Monitoring for Environment and Security
GNI	Gross National Income
GSA	European Global Navigation Satellite System Agency
JESSICA	Joint European Support for Sustainable Investment in City Areas
IEEP	Institute for European Environmental Policy

IFI	Innovative Financial Instrument
IMP	Integrated Maritime Policy
ITER	International Thermonuclear Experimental Reactor
LGA	Local Government Association
MFF	Multiannual Financial Framework
NAW	National Assembly of Wales
NCVO	National Council for Voluntary Organisations
Net contribution	The difference between a Member States' contribution to the EU budget and its receipts in EU grants and expenditure
NGO	Non-Governmental Organisation
NHF	National Housing Federation
ORD	Own Resources Decision
Own resources	The total amount of own resources allocated to the EU to cover ceiling annual payment appropriations
Payment	Actual payments made in a given year to finance a fund, project or appropriations programme
RAPEX	The EU rapid alert system for the exchange of information on measures taken to prevent or restrict the marketing or use of products posing a serious risk to the health and safety of consumers
SMEs	Small and Medium-sized Enterprises
TFEU	Treaty on the Functioning of the European Union
TOR	Traditional Own Resources (customs duties and sugar levies)
VFM	Value For Money

APPENDIX 5: COMMISSION PROPOSALS

This appendix lists those legislative proposals from the Commission that were considered as part of this inquiry, as well as relevant Communications. For ease of reference, these proposals are grouped according to the chapters of this report. Proposals relevant to more than one chapter are not duplicated in each section for reasons of brevity.

Chapters 1 and 2: Introduction and Principles

COM(2011)398	Proposal for a Regulation laying down the MFF for 2014–2020
COM(2011)403	Proposal for an interinstitutional agreement on cooperation in budgetary matters and on sound financial management
COM(2011)500/I	Communication: A Budget for Europe 2020
COM(2011)500/II	Communication: A Budget For Europe 2020 – Policy Fiches
COM(2011)510	Proposal for a Decision on the system of own resources of the EU
COM(2011)511	Proposal for a Regulation laying down implementing measures for the system of own resources of the EU
COM(2011)512	Proposal for a Regulation on the methods and procedure for making available the traditional and GNI-based own resources and on the measures to meet cash requirements
COM(2012)42	Communication: A simplification agenda for the MFF (2014–2020)

Chapter 3: Cohesion

COM(2011)607	Proposal for a Regulation on the European Social Fund
COM(2011)609	Proposal for a Regulation establishing an EU Programme for social change and innovation
COM(2011)610	Proposal for a Regulation on a European grouping of territorial cooperation (EGTC)
COM(2011)611	Proposal for a Regulation on specific provisions for the support from the ERDF to the EGTC
COM(2011)612	Proposal for a Regulation on the Cohesion Fund
COM(2011)614	Proposal for a Regulation on specific provisions concerning the ERDF
COM(2011)615	Proposal for a Regulation on Common Provisions on the ERDF, ESF, Cohesion Fund, EAFRD and EMFF

Chapter 4: Agriculture, fisheries, climate change and the environment

COM(2011)625	Proposal for a Regulation establishing rules for direct payments to farmers
COM(2011)626	Proposal for a Regulation establishing a common organization of the markets in agricultural products
COM(2011)627	Proposal for a Regulation on support for rural development by the EAFRD
COM(2011)628	Proposal for a Regulation on the financing, management and monitoring of the CAP

COM(2011)629	Proposal for a Regulation on fixing certain aids and refunds related to the common organization of the markets in agricultural products
COM(2011)631	Proposal for a Regulation on the regime of the single payment scheme and support to vine-growers
COM(2011)804	Proposal for a Regulation on the EMFF
COM(2011)874	Proposal for a Regulation establishing a Programme for the Environment and Climate Action (LIFE)

Chapter 5: Infrastructure and Innovation

COM(2011)650	Proposal for a Regulation on Guidelines for trans-European transport network
COM(2011)657	Proposal for a Regulation on Guidelines for trans-European telecommunications networks
COM(2011)658	Proposal for a Regulation on Guidelines for the trans-European energy infrastructure
COM(2011)665	Proposal for a Regulation establishing the CEF
COM(2011)676	Communication: A growth package for integrated European infrastructures
COM(2011)783	Proposal for a Regulation on a Union support for the nuclear decommissioning assistance programmes in Bulgaria, Lithuania and Slovakia
COM(2011)808	Communication: Horizon 2020
COM(2011)809	Proposal for a Regulation establishing Horizon 2020
COM(2011)810	Proposal for a Regulation laying down the rules for participation and dissemination in Horizon 2020
COM(2011)811	Proposal for a Decision establishing the Specific Programme implementing Horizon 2020
COM(2011)812	Proposal for a Regulation on the Research and Training Programme of the European Atomic Energy Community (2014–2018) complementing Horizon 2020
COM(2011)817	Proposal for a Regulation establishing the EIT
COM(2011)822	Proposal for a Decision on the Strategic Innovation Agenda of the EIT
COM(2011)834	Proposal for a Regulation establishing COSME

Chapter 6: Other expenditure lines

COM(2011)706	Proposal for a Regulation establishing an action programme for customs and taxation systems
COM(2011)707	Proposal for a Regulation on creating the 'Consumers' programme
COM(2011)709	Proposal for a Regulation on establishing a Health for Growth Programme
COM(2011)749	Communication on the Home Affairs Budget for 2014–2020
COM(2011)750	Proposal for a Regulation establishing, as part of the Internal Security Fund, the instrument for financial support for external borders and visa

COM(2011)751	Proposal for a Regulation establishing the Asylum and Migration Fund
COM(2011)752	Proposal for a Regulation laying down general provisions on the Asylum and Migration Fund and the instrument for police cooperation, preventing and combating crime, and crisis management
COM(2011)753	Proposal for a Regulation establishing, as part of the Internal Security Fund, the instrument for financial support for police cooperation, preventing and combating crime, and crisis management
COM(2011)758	Proposal for a Regulation establishing the Rights and Citizenship Programme
COM(2011)759	Proposal for a Regulation establishing the Justice Programme
COM(2011)785	Proposal for a Regulation on establishing the Creative Europe Programme
COM(2011)786	Communication: Creative Europe
COM(2011)787	Communication: Erasmus for All
COM(2011)788	Proposal for a Regulation establishing 'Erasmus for All'
COM(2011)836	Proposal for a Decision on the position to be adopted concerning the ACP-EU Partnership Agreement
COM(2011)838	Proposal for a Regulation on the Instrument for Pre-accession Assistance
COM(2011)839	Proposal for a Regulation establishing a European Neighbourhood Instrument
COM(2011)840	Proposal for a Regulation establishing a financing instrument for development cooperation
COM(2011)841	Proposal for a Regulation establishing an Instrument for Nuclear Safety Cooperation
COM(2011)842	Proposal for a Regulation establishing common rules and procedures for the implementation of the Union's instruments for external action
COM(2011)843	Proposal for a Regulation establishing a Partnership Instrument for cooperation with third countries
COM(2011)844	Proposal for a Regulation establishing a financing instrument for the promotion of democracy and human rights worldwide
COM(2011)845	Proposal for a Regulation establishing an Instrument for Stability
COM(2011)846	Proposal for a Decision on relations between the EU and Greenland and Denmark
COM(2011)884	Proposal for a Regulation establishing the programme 'Europe for Citizens'
COM(2011)890	Proposal for a Regulation amending the Staff Regulations
COM(2011)913	Proposal for a Regulation establishing the Pericles 2020 programme
COM(2011)914	Proposal for a Regulation on the Hercule III programme
COM(2011)928	Proposal for a Regulation on the European statistical programme 2013–2017

COM(2011)934	Proposal for a Decision on a Union Civil Protection Mechanism
COM(2012)140	Communication: Tackling crime in our digital age: establishing a European Cybercrime Centre

Chapter 7: Shape and flexibility of the MFF

COM(2011)608	Proposal for a Regulation on the European Globalisation Adjustment Fund
COM(2011)613	Communication: The Future of the European Union Solidarity Fund
COM(2011)814	Proposal for a Regulation on the implementation and exploitation of European satellite navigation systems (Galileo)
COM(2011)831	Communication on the European Earth monitoring programme (GMES)
COM(2011)913	Proposal for a Decision on the adoption of a Supplementary Research Programme for the ITER project (2014–2018)

Chapter 8: Income and Corrections

COM(2011)659	Proposal for a Regulation amending Decision No 1639/2006/EC establishing a Competitiveness and Innovation Framework Programme (2007–2013) and Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks
COM(2011)660	Communication: A pilot for the Europe 2020 project bond initiative
COM(2011)662	Communication: The EU equity and debt platforms
COM(2011)737	Proposal for a Regulation on the methods and procedure for making available the own resources based on VAT
COM(2011)738	Proposal for a Regulation on the methods and procedure for making available the own resources based on the FTT
COM(2011)739	Amended Proposal for a Decision on the system of own resources of the EU
COM(2011)740	Amended Proposal for a Regulation laying down implementing measures for the system of own resources of the EU
COM(2011)742	Amended Proposal for a Regulation on the methods and procedures for making available the traditional and GNI-based own resources and on the measures to meet cash requirements (recast)