REPORT FROM THE COMMISSION

ON SUBSIDIARITY AND PROPORTIONALITY

(19th report on Better Lawmaking covering the year 2011)
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1. INTRODUCTION

This is the nineteenth annual report on the application of the principles of subsidiarity and proportionality in EU lawmaking. It is presented in accordance with Article 9 of the Protocol (No 2) on the application of these principles (hereinafter ‘the Protocol’) attached to the Treaty on the Functioning of the European Union (TFEU).

As in previous years, the report looks at how the principles are implemented by the different EU institutions and bodies—the Commission, the European Parliament, the Council and the Committee of the Regions and presents in more detail some Commission initiatives and legislative proposals which have raised subsidiarity issues during 2011. It also examines how the subsidiarity control mechanism, which under Article 12 of the TEU and the Protocol gives national Parliaments a particular role in scrutiny of the principle of subsidiarity, has developed since the entry into force of the Lisbon Treaty. Given the close links between the subsidiarity control mechanisms and the political dialogue between national Parliaments and the Commission, this report should be seen as complementary to the Commission's annual report for 2011 on relations with national Parliaments.

2. HOW THE INSTITUTIONS APPLY THE PRINCIPLES

Decisions as to whether to propose action at EU level (subsidiarity) and, if so, the extent and form of such action (proportionality) are fundamental to smart regulation. All EU institutions and bodies have to comply with both principles.

A careful assessment of the principles of subsidiarity and proportionality during the pre-legislative phase is important ensuring that proposals are appropriately conceived. At the post-legislative stage, the Court of Justice could be called on to control the legality of adopted legislation. So far, the Court has not annulled a measure for breach of the subsidiarity principle.

It is imperative to make the arguments on subsidiarity and proportionality transparent, as this enables the various institutional players as well as the public at large to discuss the validity of the proposal constructively. Therefore, in accordance with Article 5 of the Protocol and irrespective of where the initiative originates, a draft legislative act should contain a detailed ‘statement’ making it possible for the interested parties to judge compliance with the principle. Although subsidiarity cannot be assessed mechanically by reference to operational

1 COM(2012) 375
2 Wider smart regulation issues were addressed in the Commission Communication COM(2010)543
criteria, the Commission continues to use ‘necessity’ and ‘EU value-added’ tests as part of its analytical framework and recommends that others do likewise.

2.1. The Commission

As the author of legislative proposals under its right of initiative, the Commission works to ensure that the correct choices about whether and how to propose EU level action are made at an early stage of policy development.

Roadmaps\(^3\), which are published for all the major initiatives, outline the Commission’s intentions, including an initial subsidiarity and proportionality justification. These ideas are verified later during both stakeholder consultation and the impact assessment (IA) process. The subsidiarity statement for each legislative proposal, as foreseen by Article 5 of the Protocol, is presented in the explanatory memorandum and recalled in the recitals of the proposal. IAs, which accompany proposals with significant impacts, provide the most detailed analysis of subsidiarity and proportionality. The quality of this analysis is systematically scrutinised by the IA Board.

In 2011, the Board continued to assess EU added value when scrutinising the quality of IAs. Though the Board's recommendations on subsidiarity and proportionality were down slightly compared to 2010, they still featured in a significant number of opinions (43%). The Board frequently asked for stronger justification of the need for action at EU level, in particular:

— the need for more evidence of problems that require action at EU level. As regards the initiative on *Alternative Dispute Resolution*, the Board requested a better demonstration of the existence and magnitude of market failure and its relevance for the functioning of the internal market. Similarly, in the case of the *EU Strategy for the protection and welfare of animals*, the Board asked that the problems associated with EU competence, such as distortion of competition on the internal market, be better distinguished from those other problems where action at Member State level would be more appropriate.

— on some occasions it concluded that the evidence base to demonstrate the need for and proportionality of an EU legislative initiative remained weak for instance in the case of the above mentioned initiative on *Alternative Dispute Resolution*, which estimated that 'there was not sufficient clarity on the costs and benefits of a full EU coverage ADR [alternative dispute resolution] at both European and Member State level'. Similarly, concerning the initiative on *access to a basic payment account*, the Board's view was that there remained a need to demonstrate more convincingly the need for, and the proportionality of, a binding EU instrument. Services introduced Board's comments into the final IA report.

2.2. National Parliaments

The subsidiarity control mechanism gives national Parliaments the right to express their views on whether draft legislative acts, which do not fall within the EU's exclusive competences comply with the principle of subsidiarity. Depending on the number of reasoned opinions

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\(^3\) Access to roadmaps is via the Commission’s IA Website: http://ec.europa.eu/governance/impact/index_en.htm.
concluding that a proposal is in breach of the subsidiarity principle\textsuperscript{4}, i.e. if the thresholds mentioned in Article 7 of the Protocol are met within the eight-week deadline, the so-called ‘yellow card’ and ‘orange card’ can be triggered. These entail a review of the draft legislation and may lead to the relevant legislative proposal being amended or withdrawn.

In 2011, the Commission received 64 reasoned opinions from national Parliaments, an increase of almost 75% in comparison with 2010, the first year of functioning of the subsidiarity control mechanism. Despite this increase, these 64 reasoned opinions still represent only about 10% of the total number of 622 opinions received by the Commission in 2011 as part of its broader political dialogue with national Parliaments.

As in the first year of application of the new subsidiarity control mechanism, the focus of national Parliaments’ reasoned opinions remains quite disparate: the 64 reasoned opinions received in 2011 related to 28 different Commission proposals. Most of the reasoned opinions focused on legislative proposals in the fields of taxation, agriculture, internal market and justice. The proposals which elicited the highest number of reasoned opinions concerned the Common Consolidated Corporate Tax Base (nine opinions), the temporary reintroduction of border controls at internal borders in exceptional circumstances (six), the Common European Sales Law (five) and the Single CMO Regulation (five). The national Parliaments most active in issuing reasoned opinions were the Swedish Riksdag, the Luxembourg Chambre des Députés (lower chamber and the Polish Sejm and Senat (lower and upper chambers).

In none of the 2011 cases were the thresholds for triggering the yellow or orange cards met. Apart from the above mentioned files, the vast majority of the 28 legislative proposals on which national Parliaments issued reasoned opinions in 2011 elicited at most three reasoned opinions. As per to its political commitment to national Parliaments, the Commission replied or is in the process of preparing a reply to each reasoned opinion in the context of the political dialogue and put forward into account in the ensuing interinstitutional discussions and negotiations.

Each national Parliament chooses its own internal procedure for adopting reasoned opinions and the format in which these are sent to the Commission. This is reflected in the huge diversity of formats, length, detail and of the actors involved in the adoption process. Given that the political dialogue and the subsidiarity control mechanism unavoidably overlap to a certain extent, the only request President Barroso addressed to national Parliaments in his letter of 1 December 2009\textsuperscript{5} was "to distinguish in their opinions as far as possible between subsidiarity aspects and comments on the substance of a proposal, and to be as clear as possible as regards their assessment on a proposal's compliance with the principle of subsidiarity". The Commission will continue to emphasise this latter point in its contacts with national Parliaments.

Apart from the more formal aspects, the content and reasoning of the reasoned opinions sent to the Commission in 2011 also varied. In several cases, national Parliaments used substantive arguments to justify a breach of subsidiarity, such as the potential negative effects of a

\textsuperscript{4} A reasoned opinion is defined as an opinion sent by a national Parliament to the Commission (or the European Parliament, the Council, Court of Justice, the European Central Bank or the European Investment Bank – depending on which institution has proposed the respective legislation) within the eight weeks period mentioned in the Protocol and stating a breach of subsidiarity.

\textsuperscript{5} http://ec.europa.eu/dgs/secretariat_general/relations/relations_other/npo/index_fr.htm
proposed measure on the overall economic situation, while other based their conclusions on subsidiarity and proportionality arguments or on an allegedly incorrect or unspecified legal basis. Finally, national Parliaments in several cases used a reasoned opinion to express their opposition to the proposed use of delegated acts in a certain area or to the lack of subsidiarity justification in the explanatory memorandum (see chapter 3.1.). As stated in the above mentioned letter of President Barroso, the Commission will "consider all reasoned opinions raising objections as to the conformity of a legislative proposal with the principle of subsidiarity (…), even if the different reasoned opinions provide different motivations as to the non-compliance with the principle of subsidiarity". In line with its interpretation of the subsidiarity control mechanism, the Commission considers that the issuance of a reasoned opinion on a Commission proposal and the arguments on which it is based, fall solely within the responsibility of each national Parliament.

As some reasoned opinions received in 2011 highlighted insufficient or missing subsidiarity justifications and some have concluded that this constitutes a formal breach of the subsidiarity principle, the Commission reiterates its commitment to ensure that the explanatory memoranda of all legislative proposals within the scope of the subsidiarity control mechanism contain an appropriate subsidiarity justification.

2.3. The European Parliament and the Council

The legislators also have a responsibility to ensure the proposal’s conformity with the principles of subsidiarity and proportionality and to provide a justification wherever an amendment they propose affects the scope of EU action.6

In Council, the Committee of Permanent Representatives (Coreper) ensures that the principles are complied with.7 In the European Parliament, the internal Rules of Procedure contain a specific Rule on the "Examination of respect for the principle of subsidiarity"8, which states that compliance is verified by the committees in charge of specific legislative dossiers, together with the Committee on Legal Affairs, and that the committee responsible may not take its final vote before expiry of the eight-week deadline.

It should also be noted that in 2011 the Commission received a small number of parliamentary questions (32 out of more than 12 000) which concerned issues in relation to respect for the principles of subsidiarity and proportionality. They mainly covered requests to substantiate the compliance of certain Commission proposals with these principles, partially echoing concerns raised by other institutions and players.

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8 Rule 38a
2.4. **The Committee of the Regions**

The Committee of the Regions expresses its views either when it is consulted or in the form of own-initiative opinions. In accordance with Article 8 of the Protocol, it also has the right to challenge under Article 263 TFEU the validity of legislation as regards compliance with the principle of subsidiarity, but only if it has been consulted by virtue of an obligation under the TFEU.

The Committee's subsidiarity monitoring is expressed either via its opinions, the activities of the Subsidiarity Monitoring Network (SMN) or via contributions which regional parliaments with legislative powers provided to national Parliaments under the subsidiarity control mechanism. The way in which regional Parliaments with legislative powers are consulted by their national Parliaments varies and in this regard the eight-week deadline poses a major challenge. A few regional Parliaments have started to send their subsidiarity opinions directly to the Commission for information.

Though it observed no subsidiarity breach in 2011, the Committee has reinforced the references to the principle in its opinions and plans to increase the number of subsidiarity assessments included in its final opinions. It continues to use its subsidiarity and proportionality analysis grid.

The Committee's Subsidiarity Monitoring Network (SMN) included by the end of the year 2011 134 partners. This represents a significant increase in particular as regards regional parliaments and governments. In 2011 the SMN conducted targeted consultations on five Commission proposals (Connecting Europe Facility; Less Bureaucracy for citizens; Review of EU Air Quality and Emissions policy; Energy Efficiency and Roma Integration9). It also launched the second Action Plan focused on TEN-T policy with the aim of identifying best practices in the application of the subsidiarity principle in Europe’s regions and cities.

2011 also saw preparations for the launch of the REGPEX website, which is designed to help regions with legislative powers play their part in the subsidiarity control mechanism and to provide a source of information and exchange between regional parliaments and governments as they prepare their subsidiarity analyses. The website was launched in March 201210.

Finally, the revised Agreement on Cooperation between the European Commission and the Committee of the Regions, on which negotiations started in 2011 and which was signed on 16 February 201211, reflects a willingness to strengthen further cooperation and exchanges in terms of implementing of the Protocol.

2.5. **The Court of Justice**

The Court of Justice of the European Union is, in accordance with Article 263 TFEU, competent to review the legality of legislative acts as regards compliance with the principle of subsidiarity. The Protocol states that the Committee of the Regions or Member States, themselves or on behalf of their national Parliaments, can bring a case before the Court.

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10 http://extranet.cor.europa.eu/subsidiarity/regpex/Pages/default.aspx
A judgment *Luxembourg vs Parliament and the Council* confirmed what was already noticed in the ruling on the *Roaming Regulation*, covered in 2009 report. In examining compliance with the principles of proportionality and subsidiarity, the Court will look to the Commission's impact assessment.

3. **Key cases where subsidiarity and proportionality concerns were raised**

This section looks at the Commission proposals which have generated the most discussion on subsidiarity and proportionality.

3.1. **Follow-up to cases mentioned in previous reports**

For some of the cases mentioned in earlier reports, such as the Directives on *Aviation Security Charges*, Protection of Soil, *Equal Treatment outside Employment* and *Cultivation of Genetically Modified Organisms* there were no significant developments in the ongoing legislative procedures during 2011. On the *Seasonal Workers Directive*, discussions continued in the EP and Council without issues related to subsidiarity or proportionality being raised.

As regards the *Maternity Leave Directive*, mentioned in the 2008 report, the legislators have not yet managed to find common ground. At the Employment, Social Policy, Health and Consumer Affairs Council in June 2011, the Council took note of a progress report which notes the concerns of some delegations calling for due consideration be given to the principle of subsidiarity and the diversity of the situations in the different Member States. Some delegations at the meeting recalled the minuted statement by eight delegations at the December 2010 Council, proposing that each Member State should be free to decide on the level of protection while respecting certain minimum requirements, in line with the principle of subsidiarity. There were some voices calling for the Council to discontinue its work on this topic.

During the inter-institutional discussions in December 2011 an agreement was found on the proposal concerning *Food Distribution to the Most Deprived People*, which had elicited 3 reasoned opinions from national Parliaments in 2010. The European Parliament expressed its strong support for continuing the programme beyond 2013. The Council also reached a political agreement on continuing the scheme up to 2013. In its declaration, the Commission took note of the opinion of a significant group of Member States not to pursue the programme beyond 2013. However, this is without prejudice to the Commission's right of initiative under the Treaty.

The plenary session of the European Parliament in February 2012 adopted a report on the *Deposit Guarantee Scheme proposal*, on which a first reading agreement had not been

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12 Case C-176/09, 
13 Case C-58/8 Vodafone Ltd, Telefónica O2 Europe plc, T-Mobile International AG, Orange Personal Communications Services Ltd v. Secretary of State for Business, Enterprise and Regulatory Reform about EC Regulation No 717/2007 
possible. This proposal elicited 3 reasoned opinions from national Parliaments in 2010. Nevertheless, both the rapporteur, Mr Simon (S&D/DE), and the Danish Presidency of the Council expressed their willingness to pursue negotiations with a view to concluding an early second reading agreement.

Finally, the Consumer Rights Directive was formally adopted by the Council in October 2011.

3.2. Further cases where subsidiarity was debated

Common Consolidated Corporate Tax Base (CCCTB)\(^{18}\)

In March 2011 the Commission proposed a common system for calculating the tax base of businesses operating in the EU. The aim of this proposal is to reduce significantly the administrative burden, transfer pricing compliance costs, allow cross-border relief of tax losses and tackle legal uncertainties which businesses in the EU currently face by dealing with up to 27 different national systems for determining their taxable profits.

This proposal attracted the highest number of opinions from national Parliaments during 2011, eliciting in total 17 opinions, nine of which were reasoned opinions according to the Protocol, namely arguing that the proposal was in breach of the subsidiarity principle. As the reasoned opinions received represented only 13 votes, the so-called "yellow card procedure", which requires at least 18 votes, was not triggered.

In addition to alleged shortfalls in the subsidiarity justification, several national Parliaments were concerned that the proposal was regulating an area of Member State competence. They claimed that it would negatively affect Member States as they would not be entitled to use corporate tax as an instrument for boosting growth and employment. They considered that it would deprive the Member States of their individual competitive advantages and would generate indirect pressure on national tax rates, leading to budgetary erosion and a decrease in tax revenues. In addition, two reasoned opinions raised the issue of proportionality claiming that the proposal went further than necessary leading to two different corporate tax systems which would result in unnecessary administrative burden.

In its replies to national Parliaments, the Commission pointed out that the present area of taxation falls under shared competence and that Article 115 TFEU provides the legal base for measures in this area. It is on this basis that the Commission adopted draft legislation with the aim of tackling fiscal impediments and disparities mainly resulting from the fragmentation of the internal Union market into 27 distinct tax systems. Businesses are faced with those obstacles when they operate within the internal market. The CCCTB is expected to generate savings for companies thus encouraging cross-border expansion not only of existing multinational groups but also of purely domestic companies, including SMEs which currently cannot afford to establish themselves across the border. Therefore, the CCCTB aims at generating positive scale effects and at encouraging cross-border business investment. Moreover, the Commission emphasised that the proposal does not affect the Member States' sovereignty to set tax rates individually, as this is left to be dealt with through national legislation.

\(^{18}\) COM(2011)121
The proposal, falling under a special legislative procedure is currently under discussion in the Council. The European Parliament gave a favourable opinion to the proposal on 19 April 2012.

Temporary reintroduction of border controls at internal borders in exceptional circumstances

The proposal for a regulation adopted in September 2011, building on the conclusions of the European Council in June 2011, is intended to strengthen the governance of the area without internal border controls (the Schengen area). It aims to enable it to respond effectively to exceptional circumstances which would put the overall functioning of Schengen cooperation at risk, without, however, jeopardising the principle of free movement of persons.

The Commission received 11 opinions from national Parliaments on this proposal, 6 of which were reasoned opinions. National Parliaments argued that the proposal encroaches on the sphere of national sovereignty of Member States, which are better placed to assess and decide on the possible reintroduction of border controls. Moreover, some national Parliaments considered that compliance with the subsidiarity principle was not appropriately justified. Arguments raised by national Parliaments were also echoed in the Council discussions on this proposal.

In its replies to those national Parliaments which had raised subsidiarity concerns, the Commission focused on the fact that the Schengen area is an asset shared by the whole EU, so any decision affecting it must be taken at EU level and not individually. The rules governing the creation and maintenance of such an area without internal frontiers are the subject of EU legislation, and any exceptions to the principle of free movement should be made at that level. The Commission also argued that the proposal fully respects the sovereign responsibility of Member States with regard to maintenance of law and order and the safeguarding of internal security.

Passenger Name Records

The Commission received ten opinions from national Parliaments on this proposal, the majority concluding that the Commission proposal was in line with the principle of subsidiarity. However, five chambers considered the proposal not to be in compliance with the principle of proportionality due to the perceived disproportionate length of the proposed data retention period.

4. CONCLUSIONS

As in previous years, the majority of Commission proposals were adopted by the co-legislators without significant discussions on subsidiarity and proportionality. In 2011 the thresholds for the so-called "yellow card" and "orange card" were not reached and only a small percentage (about 10%) of national Parliaments' opinions sent to the Commission in the context of the political dialogue were reasoned opinions within the meaning of the Protocol, i.e. stating a breach of subsidiarity. At the same time, in cases where compliance with the
principles of subsidiarity and proportionality was questioned, the views of the institutions and other players involved sometimes differed widely.

The concepts of subsidiarity and proportionality are fundamental elements in the policy development process of the EU Institutions; and the Commission's impact assessments remain the main vehicle for addressing subsidiarity and proportionality issues during the pre-legislative phase, the IA Board playing a key role in this respect. However, institutional practice shows that the way these principles are interpreted and applied during the legislative phase often depends on the political context, highlighting thus their political dimension.

The way in which most of the national Parliaments implement the Protocol and use the subsidiarity control mechanism has highlighted the primarily political character of this new tool, a fact, which the Commission had already highlighted in President Barroso's letter of 1 December 2009.

The subsidiarity control mechanism has served to make the process more transparent and has clearly helped to bring EU policies into the public debate in Member States and thus to raise public awareness on these issues.
### ANNEX

List of Commission initiatives on which national Parliaments delivered reasoned opinions on the subsidiarity principle in 2011

<table>
<thead>
<tr>
<th>Title</th>
<th>National chambers submitting reasoned opinions</th>
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</table>
| 1. Common Consolidated Corporate Tax Base (CCCTB), COM(2011)121       | UK House of Commons  
BG Narodno Sabranie  
SE Riksdag  
NL Tweede Kamer  
PL Sejm  
ML Kamra tad-Deputati  
IE Dail Eireann  
RO Camera Deputaților  
SK Národná Rada |
| 2. Temporary reintroduction of border control at internal borders in exceptional circumstances, COM(2011)560 | FR Assemblée nationale  
Both NL Chambers  
PO Assembleia da República  
SE Riksdag  
RO Senatul  
SK Národná Rada |
PL Senat  
DK Folketing  
LU Chambre des Députés  
SE Riksdag |
DE Bundestag  
UK House of Commons  
BE Sénat  
BE Chambre des Représentants |
| 5. Jurisdiction, applicable law and the recognition and enforcement of decisions regarding the property consequences of registered partnerships, COM(2011)127 | PL Senat  
PL Sejm  
RO Senatul  
IT Senato della Repubblica |
| 6. Prudential requirements for credit institutions, COM(2011)452     | UK House of Commons  
SE Riksdag  
FR Sénat |
SE Riksdag  
MT Kamra tad-Deputati |
SE Riksdag  
DK Folketing |
| 9. Specific requirements regarding statutory audit of public-interest entities - COM(2011)779 | BE Chambre des Représentants  
SK Národná Rada  
SE Riksdag |
PL Senat |
| 11. Restructuring the Community framework for the taxation of energy products and electricity, COM(2011)169 | BG Narodno Sabranie  
Both ES Chambers |
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<th>No.</th>
<th>Title</th>
<th>Reference(s)</th>
<th>Chambers/Parliaments</th>
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| 12  | Enhanced cooperation in the area of the creation of unitary patent protection, COM(2011)215 and in the area of the creation of unitary patent protection with regard to the applicable translation arrangements, COM(2011)216 | IT Camera dei Deputati  
Both ES Chambers |  

| 13  | Energy efficiency directive, COM(2011)370                               | FI Eduskunta  
SE Riksdag |  

| 14  | Access to the activity and the supplementary supervision of credit institutions, insurance firms in a financial conglomerate, COM(2011)453 | SE Riksdag  
RO Camera Deputaților |  

| 15  | Rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, COM(2011)625 | DE Bundesrat  
LU Chambre des Députés |  

| 16  | Support for rural development by the European Agricultural Fund for Rural Development (EAFRD), COM(2011)627 | DE Bundesrat (joint with the reasoned opinion on COM(2011)625)  
LU Chambre des Députés |  

| 17  | Regulation on the distribution of food products to the most deprived persons in the Union, COM(2011)634 | SE Riksdag  
UK House of Lords |  

| 18  | Contractual relations in the milk and milk products sector, COM(2010)728 | PL Sejm |  

| 19  | Financing of the common agricultural policy, COM(2010)745 | PL Senat |  

| 20  | Jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, COM(2010)748 | Both NL Chambers |  

| 21  | Interconnection of central, commercial and companies registers, COM(2011)79 | PL Sejm |  

| 22  | Jurisdiction, applicable law and the recognition and enforcement of decisions in matters of matrimonial property regimes, COM(2011)126 | IT Senato della Repubblica |  

| 23  | Food intended for infants and young children and on food for special medical purposes, COM(2011)353 | IT Senato della Repubblica |  

| 24  | Definition, description, presentation, labelling and the protection of geographical indications of aromatised wine products, COM(2011)530 | LU Chambre des Députés |  

<p>| 25  | Information exchange mechanism with regard to intergovernmental agreements between Member States and third countries in the field of energy, COM(2011)540 | LU Chambre des Députés |</p>
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<th>Description</th>
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