



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 1 December 2011

17448/1/11

REV 1

**CADREFIN 153
POLGEN 209**

REVISED NOTE

from: Presidency

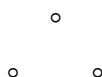
to: Permanent Representatives Committee / Council

Subject: Multiannual Financial Framework (2014-2020)

- Report on progress of work within the Council in the second semester 2011

The start of the Polish Presidency coincided with the presentation of the Commission's proposals for the future Multiannual Financial Framework (MFF). A first informal exchange of views took place on 28-29 July in Sopot which allowed for a general overview of the proposals. On 12 September 2011, the General Affairs Council held an exchange of views on the duration, structure and flexibility of the MFF. On 25 October 2011, Coreper discussed heading 1 "Smart and Inclusive Growth" (except cohesion and the Connecting Europe Facility), heading 3 "Security and Citizenship", heading 4 "Global Europe" and heading 5 "Administration". The General Affairs Council on 15 November held an orientation debate on economic, social and territorial cohesion, on the Connecting Europe Facility, on the Common Agricultural Policy and on the Common Fisheries Policy. Coreper on 23 November discussed the future system of own resources of the European Union. The present report summarises the outcome of these discussions.

In this context, it is important to note that pursuing work on an individual policy basis or specific issues should not lead to a loss of overview of what has to remain a global negotiation, where nothing can be considered as agreed until everything is agreed. In particular, whilst at this stage of the negotiation specific discussions on the overall amounts of expenditure allocated to the different headings were not held, several delegations underlined the general need for the MFF to reflect efforts made at the national level as regards fiscal consolidation. In this context they felt a lower overall level of expenditure than in the Commission's proposal would be more appropriate. Some delegations pointed also to the difficulty to discuss the specificities prior to a discussion on the overall amounts. At the same time, several delegations stressed the importance of ensuring appropriate financing of EU common policies so that the multiannual financial framework contributes adequately to addressing common challenges. Many delegations underlined that on several issues there was a need for more information or analysis before they could take a more definitive position



Duration

1. All delegations agreed with the Commission's approach and supported the proposed duration of seven years for the next MFF.

Structure

2. There was a broad agreement on the structure proposed by the Commission. Two issues were discussed in detail.

3. First, relating to heading 1, the option of keeping the expenditure for economic, social and territorial cohesion separate was supported by several delegations. For most of these delegations, placing it under a sub-ceiling instead of making it a separate sub-heading (as is the case in the current MFF) could put allocations for this policy at risk; they therefore expressed themselves in favour of placing this expenditure into a sub-heading. Some of the delegations rather sought guarantees that cohesion policy allocation would be ring-fenced. Concerns were also expressed over the interplay between the cohesion policy and the "Connecting Europe Facility" and there were some calls in favour of keeping the two areas separate from each other.
4. There also were differing opinions expressed on the issue of the instruments outside the MFF. A group of Member States called for putting all instruments inside the MFF, in particular for reasons of transparency, control and unity of EU expenditure. Among these delegations, some insisted in particular on the inclusion of ITER and GMES.
5. Some delegations would however differentiate and could accept that the European Development Fund would remain outside the MFF, due to its specific modalities and purpose. Some delegations considered that the unpredictability of expenditure linked to ITER and GMES also called for keeping them outside the MFF. Some Member States expressed the view that these instruments should be examined on a case-by-case basis. Some delegations considered that the flexibility instruments should continue to remain outside the MFF as is the case today.

Flexibility

6. The general principle of flexibility was welcomed by delegations, provided it was not to the detriment of budget discipline. However, some delegations pointed to the fact that the contingency margin was not thoroughly discussed.
7. A number of delegations considered that the flexibility instruments currently available in the MFF were sufficient and did not require modifications as proposed by the Commission.
8. Some delegations, recalling past experience, supported the flexibility proposed by the Commission.

Smart and Inclusive Growth (except cohesion and CEF)

9. Many delegations pointed to this area as bringing a true added value of EU action. In this context, they welcomed the concentration on areas promoting growth, competitiveness and job creation such as research, innovation small and medium-sized enterprises, job creation and education in line with the Europe 2020 strategy.
10. The general effort for simplification was welcomed. At the same time, some stressed that simplification should not only mean the reduction and rationalisation of the instruments themselves, but also the streamlining of procedures for managing the funds. In this context, a few delegations regretted that the merger of instruments resulted in a decreased visibility of some important programmes, in particular in the field of Education, Youth and Culture.
11. The structure of expenditure in this area was broadly welcomed. A number of delegations expressed some concerns over the treatment of Horizon 2020, in particular as regards its link with other policies, including cohesion policy. In this context, these delegations questioned the Commission's proposal to eliminate the current sub-heading for cohesion policy and to establish a sub-ceiling (see also point 3).

12. The proposed main areas for expenditure in the field of research and innovation ("excellence in the science base"; "tackling societal challenges"; "creating industrial leadership and boosting competitiveness") were broadly welcomed. In this context, a number insisted on the importance of the area of excellence. A few delegations mentioned the need to ensure a balanced rate of participation of all Member States in the research programmes.
13. As regards the treatment of large scale projects (Galileo, ITER and GMES), a majority of delegations welcomed the proposal of the Commission to leave Galileo inside the MFF. A few questioned, in this context, the amount proposed, which they felt was too high. A number of delegations considered that ITER and GMES should also be put inside the MFF in order to ensure transparency and provide the overall picture of all EU expenditure. Others agreed with the Commission proposal, expressed no preferences or asked for a case-by-case approach..
14. While most delegations supported the Commission proposal on nuclear decommissioning, those directly concerned, while making references to the protocols to the Accession Treaties, considered it insufficient, both in terms of amounts and duration.

Economic, social and territorial cohesion

15. For a number of delegations, this policy continues to constitute an important development tool, even if some insisted on the need for its thorough reform. Its contribution to growth and job creation was also emphasised. In this context, the need for further simplification and avoiding administrative burden was raised by many. Some delegations underlined the importance of respecting the principle of proportionality between the volume of a programme and the administrative cost it entails. A majority of delegations suggested that support from cohesion policy should be concentrated to the less developed regions and Member States, others supported the Commission's proposals for a broader geographical scope of support. Delegations were split on the level of allocation, some finding it too low, others too high.

16. The different types of conditionality proposed by the Commission raised questions. According to a number of delegations, any conditionality should be gradual, clearly defined, respect the principle of subsidiarity and the competences of the Member States as well as be based on proportionality and equitable treatment of all Member States. It should also be directly linked to the effectiveness of the policy. While a number expressed openness on the ex-ante conditionalities, views diverged on other forms of conditionality.
17. In this context, many delegations found that macro-fiscal conditionality did not respond adequately to the above objectives, and risked resulting in bringing economically unjustifiable pro-cyclical effect, double sanctioning (in addition to the sanctions stemming from the "six-pack") and penalisation of the beneficiaries. Some delegations were prepared to give these proposals further consideration provided they were applied to all policy areas in which the legal engagements are between the EU and Member States (apart from the 5 funds covered by the Common Strategic Framework also encompassing direct payments to farmers and parts of Connecting Europe Facility). Conversely, some delegations supported the Commission proposals, which they felt rightly supported efforts to preserve fiscal discipline, render spending at EU level more efficient and more result-oriented and contribute to a better governance at the level of the Member State.
18. The performance reserve was welcomed by some delegations while others, recalling past negative experience, raised questions in particular on the criteria for its application, and the potential risk that some programmes would lose part of their allocation.
19. The creation of the category of "transition regions" was challenged by most delegations, in particular because of the need to concentrate support on the less developed regions. Some delegations insist that the normal phasing-out solutions (i.e. similar to the current and past MFFs) for the regions leaving the current convergence objective would be sufficient, while others pointed to a fair phasing-out regime ("safety net"). Others welcomed it as a measure of ensuring equal treatment for regions with similar conditions. A flexible solution for capital regions was advocated by a number of delegations.

20. A number of delegations had difficulties with the proposed capping (at 2.5%). Some found this level too high, whilst others found it too low.. The wish for capping to be differentiated as in the current period, in order to better reflect the absorption capacities of the Member States, was also expressed. Some delegations noted that application of the capping at the level of 2,5% of projected GDP leads to their lower cohesion policy allocations as compared to the current programming period and thus could be contravening the expressed need to concentrate resources on the least developed regions and Member States.
21. Some delegations expressed the wish to maintain the co-financing rates at their current level, whilst others agreed on those proposed by the Commission and a few asked for them to be lowered. A number of delegations insisted that the current rules on eligibility of non-reimbursable VAT should be maintained and applied consistently to all funds covered by the Common Strategic Framework.
22. Some delegations were not fully satisfied with the way the issue of territorial cohesion, as established in the Treaty of Lisbon, was addressed in the Commission proposals. These delegations called therefore for better treatment of regions and Member States with permanent natural handicaps as well as of outermost regions. This remark also applies to other policy areas.

Connecting Europe Facility

23. The objectives pursued with the proposed creation of the Connecting Europe Facility were largely supported, even though a number of delegations requested more clarifications from the Commission. Some delegations also flagged that the proposed increases for the 3 policy areas as compared to the current framework are too high.

24. The ring-fencing of EUR 10 billion in the Cohesion Fund for TEN-T projects raised the concerns of some delegations, in particular as regards its implications for the allocations of cohesion funding, the process of selecting projects and the way they are managed.
25. The enhanced use of innovative financial instruments was received positively, even though it was stated that more analysis is required. Some delegations expressed more reserved views by calling for the need to analyse deeper the functioning of existing instruments.

Common Agricultural Policy

26. Views diverged on the level of the budget with some delegations supporting the Commission proposal to stabilize spending on 2013 level in nominal terms, while some others arguing for a more restrictive approach to agriculture related spending.
27. The proposed modalities for the convergence of direct payments in the Common Agriculture Policy raised some questions. On the one hand, some delegations found that the proposed scheme was too ambitious and should be more gradual, whilst others argued that it was too slow and did not provide for full equality of treatment. Several Member States felt the Commission proposal struck the right balance. The redistribution criteria, in particular the use of potentially eligible areas, were questioned by a few delegations.
28. Further greening of the direct payments was not opposed as such, but several delegations stressed the need for this to be done efficiently and proportionally. Some delegations felt that greening should be pursued in the second pillar of the CAP rather than through direct payments. Some took the view that the share of direct payments (30%) made conditional on green measures was too high, while a few regarded it as being too low. Many delegations asked the proper balance be maintained between greening and the administrative burden that may be involved in their implementation.

29. As regards rural development, some delegations welcomed its inclusion in the Common Strategic Framework, but questioned it being subject to macro-fiscal conditionality. Many delegations called on the Commission to come up as soon as possible with an annual breakdown per Member State of rural development allocations.
30. A few delegations opposed the creation of a reserve for crisis in the agricultural sector as well as the extension of the European Globalization Fund to farmers.

Common Fisheries Policy

31. Delegations gave a positive welcome to the general principles of the Common Fisheries Policy. Given that the proposals concerning the European Maritime and Fisheries Fund were not yet adopted by the Commission, further work will be needed on the specificities.

Security and Citizenship

32. Particular emphasis was put on the large scope for added value of the EU action in the field of security and citizenship. In this context, some delegations pointed in particular to the need for enhanced EU action in the area of migration, borders and the external aspects of EU policies in this domain.
33. In this context, a few delegations questioned the inclusion of the Return Fund into the Migration and Asylum Fund, in particular as regards its implications for the approach to external borders and internal security.
34. Some delegations raised also the issue of Civil Protection, with some delegations considering that the primary responsibility for this field lies with the Member States and therefore should not be subject to EU budget expenditure, and others conversely supporting the Commission proposal.
35. A number of delegations questioned the placing of Food Safety as well as Animal and Plant Health in this heading and advocated either that they be moved back to heading 2 or be placed in heading 1.

Global Europe

36. Several delegations welcomed the Commission proposal relating to "Global Europe". They insisted on the need to reflect, through the EU budget, the priorities, values and interests of the European Union in the world.
37. A number of delegations supported the priority to respect the EU's formal undertaking to commit 0.7% of gross national product (GNP) to official development assistance (ODA) by 2015. Some however expressed doubts on the fact that as much as 15% of the collective EU ODA effort should come from the EU budget and the EDF.
38. As regards the Development Cooperation Instrument, and in particular its Pan-African component, more clarifications were requested by a number of delegations.
39. Many delegations agreed with the proposed scope of the Partnership Instrument, in particular taking into account the continuous developments of the Union's relations with some of the strategic partners. A number of delegations either required more information for further analysis or expressed hesitations over the Instrument.
40. Views were divided over the treatment of the European Development Fund (EDF). While a number supported the Commission proposal to keep, for the time being, the EDF outside the MFF, some called for its budgetisation. In this context, the question of the contribution key for the EDF was raised, with some insisting on the fact that it should be identical to the classic budgetary contribution key, while others pleaded for the remaining status quo, which reflects greater historical links of some Member States with beneficiary countries.
41. Some delegations favoured an increased focus on the European Neighbourhood Instrument and the Pre-Accession Instrument, whilst a few others questioned the rationale of keeping their allocations at the proposed levels. In this context, a number of delegations called for a balance between the EU's Southern and Eastern neighbourhood. Others underlined the need to maintain the present balance based on demographic criterion. Some delegations called for an application of a "more for more" principle.

Administration

42. A large number of delegations welcomed the Commission proposal to rationalise administrative expenditure. In this context, they welcomed the Commission proposal for a 5% reduction in the staffing levels of each institution, service, agency and other bodies. In addition, some delegations called for enhanced specific solutions relating to a sustainable pensions system.
43. As a general point, some delegations called for an effort to further enhance the efficiency of the European public service through a reform of the Staff Regulation.
44. A few delegations questioned the structure of this heading. A few delegations also suggested that all administrative expenditure, including that relating to agencies, should be placed under heading 5.

Own resources

45. The general principles underlying the new proposal for the system of own resources of the European Union were welcomed by a large majority of delegations. Delegations appreciated the effort of simplification made by the Commission, even though some pointed to the fact that simplification should not be done to the detriment of efficiency and fairness.
46. Most delegations insisted on the need for more information and analysis on the proposed new own resources.
47. Some delegations favoured a generalised application of the GNI-based resource instead of creating new own resources in order to better ensure a fair, transparent and simple system.

48. Several delegations expressed scepticism over the creation of a Financial Transaction Tax as it could lead to a relocation of financial institutions and activity between Member States and towards non-EU countries. Some delegations declared their readiness to further explore modalities of its introduction. Part of those could consider such a tax only at the condition that it would be applied at a global level. Others could agree on it in principle as it could be an important tool to prevent future financial crises and hinder some undesirable market practices such as high frequency trading, but could not agree to it constituting an EU own resource. A few delegations expressed a positive approach to the Commission proposal in this area.
49. Most delegations took a positive view about the elimination of the current VAT-based own resource on 31 December 2013.
50. Many delegations abstained from taking position on the new VAT own-resource for the time being as the Commission proposals would need further examination. Some delegations expressed concern that the proposed simplification of the calculation method of new VAT own-resource would not sufficiently take into account differences between the VAT systems existing in Member States. Some delegations remained unconvinced that this system would decrease the administrative burden and warned against the creation of further red tape.
51. A majority of delegations argued that there should no longer be any correction mechanisms. However, some delegations took the view that the proposed reform of the corrections system constituted a good, albeit insufficient step in the right direction.
52. A few delegations took the view that if some sort of correction mechanism were to be maintained, they should benefit from such a system as well.

53. On the other hand, a few delegations, recalling the principles agreed by the European Council in 1984 in Fontainebleau, namely that *expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances; however, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time*, saw the need to address the problem of budgetary imbalances on the revenue side and to maintain an appropriate system of corrections. Moreover, the need to analyse correction mechanisms together with the expenditure side was also raised.
54. Some delegations expressed opposition to the Commission proposal to reduce the traditional own resources collection costs from 25% to 10% , arguing that they would be unfairly penalised by such a decrease. Conversely, a few other delegations supported the Commission’s argumentation that collection costs at the level of 25% constitute a “hidden rebate”.

Other issues

55. Some delegations raised the question of the macro-economic assumptions on which the Commission based its proposals. These delegations favoured the use of actual growth data from the past - the 10 year historical average - rather than the forecasts for future GDP, arguing that such forecasts are difficult and error prone. Others agreed with the Commission, insisting in particular on the accuracy of the method which was agreed with the Member States for other exercises such as European Semester and discussion on the aging of society. A number of delegations thought it was essential that the Commission update its proposal in the light of new growth forecast data and applies the most up- to- date data on regional prosperity.

56. Some delegations expressed the view that the proposal of the Commission should be examined in current prices instead of 2011 prices and discussions should be based on payment appropriations and not only on commitment appropriations.
57. The question of the outstanding commitments ("Reste à liquider") was raised by a number of delegations, pointing to the need for more data and further analysis.
-