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NOTE

from:	Presidency
to:	Permanent Representatives Committee
Subject:	Multiannual Financial Framework (2014-2020) - State of play on the basis of technical clarifications undertaken in the Friends of the Presidency Group (MFF) and in the Working Party on Own Resources in January and February 2012

Delegations will find below a note by the Presidency on the state of play on the basis of technical clarifications undertaken in the Friends of the Presidency group (MFF) and in the Working Party on Own Resources in January and February 2012, with a view to the COREPER meeting on 15 February 2012.

1. Since the start of the Danish Presidency, the Friends of the Presidency group (MFF) continued technical clarifications of the Commission proposals in the context of the multiannual financial framework. These concentrated in particular on proposals which were not yet available at the time of the relevant work in the second semester 2011.
2. On 13 January 2012, the Friends of the Presidency group (FoP) concentrated on Horizon 2020, nuclear safety and decommissioning, the Social Development Agenda, Fiscus, Education, Training, Youth and Sport as well as Competitiveness and SMEs (COSME). On 20 January, the FoP discussed large scale projects, Health and Consumer Programmes, Europe for Citizens, Creative Europe Programme, the Civil Protection Instrument as well as Instruments in the area of Justice and Home Affairs. On 3 February, FoP had exchanges of views on the Development Cooperation Instrument, the European Neighbourhood Instrument, the Pre-Accession Instrument, the European Instrument for Democracy and Human Rights, the Instrument for Stability, the Instrument for Nuclear Safety Cooperation, the Greenland Instrument as well as the European Development Fund. On 3 February, the FoP discussed also Heading 5 - Administration. On 8 February, the FoP exchanged views on the Programme for the Environment and Climate Action (LIFE) and European Maritime and Fisheries Fund.
3. The Working Party on Own Resources examined the technical aspects of the revised legislative package for the system of own resources of the European Union, adopted by the Commission on 9 November 2011¹ and examined the proposal for a new VAT-based own resource in details (during its meetings on 25 January and 1 February 2012).
4. The present note summarises the main lines of discussions.

¹ The revised legislative package consists of : the amended proposal for a Council Decision on the system of own resources of the European Union (ORD), the amended proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union, the amended proposal for a Council Regulation on the methods and procedure for making available the traditional and GNI-based own resources and on the measures to meet cash requirements (Recast), as well as of the new proposal for a Council Regulation on the methods and procedure for making available the own resource based on the value added tax (VAT), and of the new proposal for a Council Regulation on the methods and procedure for making available the own resource based on the financial transaction tax (FTT).

Heading 1 "Smart and Inclusive Growth" (except cohesion and CEF)

5. As regards Horizon 2020, many delegations referred to the EU added value of this programme and saw positively an increase in its budget, even though some said that the increase proposed by the Commission was too high. Most delegations insisted on the importance of the criterion of excellence ; some however feared that it could lead to an unequal access to funds among Member States and suggested that specific measures be taken to prevent this from happening. A number of delegations underlined the synergy that needs to exist between funding from Horizon 2020 and spending from structural funds for enhancing regional R&I capacity. The importance of R&I spending in SMEs was underlined. As regards nuclear decommissioning, the Member States directly concerned challenged the Commission proposal as regards both the amounts and the timeframe of the support. A few delegations expressed doubts on the integration of Customs and Fiscalis into one single programme - Fiscus. While most delegations supported the principles underlying ERASMUS, a few questions were raised about its scope (inclusion of sport). On COSME, some delegations expressed doubts about the inclusion of tourism activities, even though others welcomed it.

Large scale projects

6. The discussion on the large scale projects focused in particular on the Commission approach of placing ITER and GMES outside the MFF. Delegations' views diverged on this issue. Some insisted on putting it in the MFF for reasons of transparency and budget discipline ; others supported the Commission proposal, in particular for reasons linked to the unpredictability of this projects' costs. For a few of these last delegations, consideration about the inclusion of these projects in the MFF was subject to a guarantee that it would be done without detriment to the allocation for the cohesion policy. As regards Galileo, a few delegations questioned the rationale behind the increase of its budget.

Heading 3 "Security and Citizenship"

7. The programmes relating to "Citizenship" did not raise abundant questions. Some delegations expressed doubts about the level of amounts proposed ; a few questioned their scope, in particular as regards the Consumer Programme. A few delegations advocated moving the Food Safety programme back to Heading 2. As regards programmes in the area of "Justice and Home Affairs", most delegations welcomed the proposed simplification and referred to the added value of the EU's action in this field. Some delegations questioned the level of administrative costs of the programmes ; some expressed concerns over the proposed co-financing rates.

Heading 4 "Global Europe" and European Development Fund.

8. Most delegations broadly welcomed the principles underlying the proposals, such as simplification, differentiation, more added value and conditionality. Some delegations underlined however that needs were as important as performance when providing assistance. Some delegations considered too high the increase of appropriations in this Heading. Many questions were raised relating to the share of the Heading which may be counted as ODA. As regards specific instruments, a number of delegations considered the European Neighbourhood Instrument and the Pre-Accession Instrument as a priority. Many delegations raised specific questions concerning the Development Cooperation Instrument, in particular as regards its scope and the specificities of the new Panafrican Instrument. An important number of interventions focused on the European Development Fund. Some delegations expressed concerns about its increased appropriations, in particular as regards the administrative costs. Some delegations wished to include the EDF inside the MFF ; a significant number however shared the Commission approach to leave it outside the MFF. While some delegations welcomed the proposed adjustment of the contribution key to the budgetary one, for a number it constituted a difficulty.

Heading 5 "Administration"

9. Many delegations took the view that the Commission proposal to reduce administrative spending did not go far enough. These delegations often recalled efforts made at national level and found that additional savings should be made at EU level. A number of delegations inquired about the ways in which the Commission would make sure that all institutions, bodies and agencies implement the commitment of 5% reduction in staff numbers. The question of the sustainability of the pensions' system was also raised by many. In addition, delegations discussed the question of administrative expenditure outside Heading 5, some of them finding that such situations should be limited.

European Maritime and Fisheries Fund and Programme for the Environment and Climate Action (LIFE)

10. Most delegations insisted on the importance of these programmes even though some recalled the importance to contain expenditure at EU level as a principle. A number of delegations questioned the proposed simplification finding that it did not go far enough. As regards in particular the EMFF, a number of questions were raised notably relating to the level of co-financing and the elimination of scraping of vessels. Many delegations raised the question of the integrated projects as proposed for LIFE wondering how this would operate in practice. A number expressed concern about the new rules for eligibility of expenditure. The interlink between this programme and funding from other areas was also raised by many as well as the mainstreaming of climate. For both programmes, delegations asked for breakdown of the allocation per Member State.

Own resources

11. The Commission provided an overview of the legal architecture of the new and amended proposals. It referred to the complexity and inconsistencies in the structure of the current system of own resources and to the new legal framework following the entry into force of the Lisbon Treaty which, according to the Commission, resulted in the need to present new consolidated and simplified proposals for the system of own resources of the European Union.

12. Certain delegations considered that too many elements of substance had been included in the Regulation implementing the ORD. They asked if it was legally possible to set applicable shares and rates of call for own resources in the implementing Regulation, adopted by qualified majority on the basis of Article 311, fourth paragraph TFEU, rather than in the ORD itself which had to be agreed by unanimity on the basis of Article 311, third paragraph TFEU. They considered this as a non-respect of the Member States' sovereignty in tax issues and of the national Parliaments' scrutiny rights, and as a major transfer of competences to the Union, in particular to the Commission. Some delegations extended this question also to the provisions on adjusting and recalculating GNI figures after significant changes. The Council Legal Service confirmed the legality of the Commission proposal from an own resources point of view (although other arrangements were equally possible) and pointed out the wide margin of discretion for the Council.
13. Furthermore, the Commission outlined the reasons for proposing a reform of the current VAT-based own resource. It explained the suggested method for calculating the proposed new VAT-based own resource and its estimated benefits for Commission and Member States.
14. Many delegations welcomed the proposed elimination of the current VAT-based own resource and considered this as an important element of simplification. However, several delegations raised doubts about the added value of the proposed new VAT-based own resource. Other delegations welcomed the simplification of the proposed new VAT-based own resource compared to the current VAT-based own resource.
15. Several delegations considered that the expected revenue from this proposed new own resource, as well as its impact on individual Member States, were difficult to predict. A number of delegations raised concerns about the equal treatment of Member States under the proposed new system. They considered that it would have a negative impact on Member States with a large share of supplies taxed at the standard VAT rate, as well as on Member States with an efficient national tax collection system, and asked if appropriate correction mechanisms were foreseen to be put in place.

16. Many delegations requested more detailed information on the foreseen Commission competences for determining the Union average proportion of chargeable supplies ("uniform percentage") to be applied, on the underlying data to be collected and the proposed methodology for calculating this "uniform percentage", as well as on the conditions and modalities for its possible revision.
17. A number of delegations were concerned about an expected supplementary workload for national administrations resulting from the obligation to provide monthly statements as a basis for the calculation of the new VAT-based own resource, in addition to the annual data required for the calculation of GNI-based contributions and budgetary needs, and considered this as not being in line with the Commission's objective to propose a simplified and transparent system. They would therefore like to see a detailed impact assessment for the Commission's proposals.
18. Several delegations raised questions about the proposed control and supervision measures, compared to the current situation. They were also interested in the justification of the proposed provisions on reporting fraud and irregularities.
19. Some delegations raised general concerns about the proposed new own resources based on VAT and FTT. Inter alia, they considered them as being not sufficiently transparent and had doubts about the availability of the required underlying data in a comparable and harmonised form in all Member States.

Next steps

20. The purely technical clarification phase undertaken since July 2011 has reached its end. The Friends of the Presidency group (MFF) has examined all aspects of the overall MFF package, both on the expenditure and revenue side. Starting from mid-February, the group has started discussions on specific outstanding questions relating to the future MFF, on the basis of questionnaires provided by the Presidency. From March, the FoP will discuss all aspects of the future MFF, in particular those on which there are persisting gaps between delegations' positions, with a view to providing input to the Presidency for the elaboration of the "Negotiating Box".

21. During its next meetings on 28 March and 2 May 2012, the Working Party on Own Resources will focus on a political discussion about the own resources proposals with a view to enable an integration of the revenue side into the "negotiating box" on the multiannual financial framework (to be discussed by the Friends of the Presidency Group). The Presidency will circulate a questionnaire to delegations.

22. COREPER will continue to have the responsibility for preparing the work of the General Affairs Council on the MFF, particularly when it comes to developing the "Negotiating Box". COREPER will from late March hold discussions on parts of the Box and is, as of mid-May, expected to hold regular discussions on the full Box.
