

# European and External Affairs Committee

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## Scoping Paper: Inquiry into the EU Budget Review

### Summary

This scoping paper has been prepared following the Committee's meeting on 1 December 2009 where Members agreed to carry out an inquiry into the EU Budget Review.

The paper sets out proposed terms of reference for the inquiry as well as suggestions about the types of witnesses the Committee may wish to take evidence from.

It proposes that the inquiry should run across 2009, with an initial look at the emerging positions within the Commission and UK Government line, with a follow up once the EU Budget Review paper has been published by the Commission.

The aim would be to adopt a report and recommendations either before the end of the summer term or in the early autumn, depending on when the EU Budget Review paper is published.

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## 1. Introduction

At its informal meeting on 1 December 2009 the Committee agreed in principle to carry out an inquiry into the EU Budget Review – to determine the EU budget 2014-2020 – and the potential implications for Wales.

This paper provides background information on this issue, potential terms of reference, and identifies a number of witnesses that could be called to give evidence to the Inquiry.

## 2. Timing and broader EU policy debate

The European Commission was originally expected to publish the EU Budget Review Paper before the end of 2009. However, it looks as if this will be delayed until the middle of 2010, with the Commission giving primary attention to the preparation and adoption of the EU 2020 Strategy (the successor the Lisbon Strategy), which is scheduled to be discussed at the European Council's meeting in March.

The wider discussions on the EU 2020 Strategy (the successor to the current Lisbon Strategy), the future of Cohesion Policy, and the future of the Common Agricultural Policy (CAP), will be of particular relevance to the debate on the future EU Budget.

For this reason it is proposed that this inquiry should be carried out in two phases:

- **Phase 1:** during January- March to ascertain the views of the European Commission's DG Budget and Secretariat General over the likely shape of the EU Budget Review Paper, as well as seeking clarification of the UK Government's position in this debate
- **Phase 2:** after publication of the EU Budget Review paper, to look at the potential implications to Wales, with particular attention to EU Cohesion Policy and CAP.

The inquiry's report would be tabled for adoption after completion of these two phases, which is likely to be early autumn 2010.

## 3. EU Budget Review

The three main EU institutions, the European Commission, European Parliament and European Council, have for a number of years agreed to adopt a multi-annual financing agreement, usually referred to as the Financial Perspectives, as the basis for the operation of the annual EU Budgets. The latest Financial Perspectives covering the period 2007-2013 were agreed in May 2006, following approximately 18-24 months of informal and formal discussions within and between the three institutions.

As a consequence of the financial and economic crisis, and the high levels of public deficit across the EU, there is a general expectation that a 'conservative' budget is considered inevitable. This means that there will be considerable pressure to focus EU funding on key

priorities and objectives, and actions that will be viewed as demonstrating clear added value, effectiveness and efficiency in terms of delivering clear and measurable outcomes.

The two largest elements in terms of funding streams remained the Common Agricultural Policy (albeit a far lower amount than in the 1980s) and the EU Cohesion Policy, which account for approximately 75-80% of the total budget for the period.

As part of the compromise agreement reached in May 2006, the European Commission was mandated to publish an EU Budget Review Paper before the end of 2009, which would look at reforming and modernising the EU budget for the post 2013 period. The aim of this exercise was to avoid delays in the negotiations for 2014-2020 period, as well as enabling sensitive issues such as the UK rebate and further reform of CAP to be considered before the negotiations on post 2013 had formally begun.

To inform the EU Budget Review Paper the European Commission carried out a publication consultation from November 2007 to June 2008, and organised a conference in Brussels on 12 November 2008 to discuss and present the key findings of the consultation<sup>1</sup>. Both Welsh Assembly Government and the UK Government submitted responses to this consultation (see *section 5* below).

The European Commission was expected to publish an **EU Budget Review Paper** before the end of 2009. However, the paper has been delayed and is not envisaged to be published until midway through 2010.

Towards the end of October 2009 an unofficial draft of the EU Budget Review Paper prepared by Secretariat General and DG Budget within the European Commission was "leaked", and widely circulated around Brussels and across Europe. The European and External Committee members saw a copy of this document ahead of their meeting on 3 November 2009.

The unofficial draft provoked a strong reaction in Brussels, including letters from Professor Danuta Hübner MEP, the former First Minister, Rhodri Morgan AM, the Spanish regions, and seven European networks, sent to President Barroso expressing concerns at the content of the leaked draft.

There was also a formal discussion on the draft at the Regional Development Committee's meeting in the European Parliament on 3 November.

The responses centred on concerns that President Barroso proposed to move away from an EU-wide Cohesion Policy centred on regional programmes, with Cohesion to be used as a redistribution instrument for the poorest Member States and managed and delivered through national programmes. The paper was also read as proposing to replace the regional approach with the creation of a number of sectoral or thematic programmes, which would be centrally managed from Brussels.

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<sup>1</sup> See [http://ec.europa.eu/budget/reform/conference/documents\\_en.htm](http://ec.europa.eu/budget/reform/conference/documents_en.htm)

The unofficial draft also referred to the need to substantially reform the CAP for the future, as well as abolishing the UK rebate.

On 24 November 2009 the Commission launched a consultation on the EU 2020 Strategy, which President Barroso is proposing as the successor to the current Lisbon Strategy. The final proposal is likely to be published in February 2010, ahead of the discussions and anticipated agreement of the EU 2020 Strategy at the Spring European Council.

There will be a strong read-across between the Euro 2020 priorities (and challenges) and the EU Budget Review paper.

#### 4. Current situation in Wales: 2007-2013<sup>2</sup>

Wales benefits significantly from the two largest funding streams in the current EU Budget i.e. EU Cohesion Policy and the Common Agricultural Policy. Therefore, it could stand to lose should there be major revisions in the allocations to these budget lines in the future.

##### 4.1 Cohesion Policy

For the 2007-2013 period Wales is eligible to receive in the region of **€2.2bn** of European funding under the Structural Funds programmes. The vast majority of this, **€2.08bn (93%)**, goes to the **West Wales & Valleys Convergence Programme**, whilst the remaining €136m is going to the East Wales Regional Competitiveness programme.

Wales is also eligible to participate in a number of Territorial Co-operation Programmes, which are financed by the European Regional Development Fund (ERDF), most notably:

- Ireland - Wales Cross Border Co-operation Programme, worth €52.6m in European Economic Development Funding (ERDF)
- North West Europe Transnational Co-operation Programme, a total ERDF allocation of €355m to the whole programme area
- Atlantic Area Transnational Co-operation Programme, a total ERDF allocation of around €104m to the whole programme area

Access to the funding under these Territorial Co-operation Programmes is through competitive bidding, where eligible organisations in Wales prepare project proposals with partners from other parts of the EU under the relevant programmes.

##### 4.2 Agriculture and Rural Development

Wales receives approximately **£220m** per annum through Single Farm Payments under the **Common Agricultural Policy**<sup>3</sup>. Wales also receives **€401m** to support rural development under the 2007-2013 Rural Development Programme<sup>4</sup>.

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<sup>2</sup> More information available from: <http://www.wefo.wales.gov.uk/>

### 4.3 Other EU funding

Outside of these two main budget lines the EU Budget supports a range of other sectoral and thematic policy objectives of the EU.

This funding is usually allocated through thematic programmes, either through calls for proposals which eligible organisations from across the EU can bid into to get support for project activities, or through a competitive tendering process, where organisations submit tenders for contract work. Depending on the eligibility rules and criteria, organisations from within Wales will be eligible to participate in both of these types of activities.

There are a range of different sources that give ad hoc information on participation by Welsh organisations in various EU programmes, such as the Welsh Government's response to the EU Budget Review consultation. However, there is no central database or record from the European Commission, the UK Government or the Welsh Government, which details the amount of funding secured by Wales from the types of programmes identified in section 2.3. Therefore, we do not have an accurate global figure of the value or level of participation of Welsh organisations in these different programmes.

For 2007-2013 the largest programmes outside of the Structural Funds and CAP are:

- **Framework Seven Research Programmes (FP7):** currently has a budget of approximately €50bn to support applied research and development
- **Competitiveness and Innovation Programme:** a new fund created directly linked to delivering the Lisbon Strategy, it provides support through three thematic programmes: (i) Entrepreneurship/Innovation (ii) Intelligent Energy Europe (iii) ICT Policy Support Programme. This has a total budget of approximately €3.6bn
- **Lifelong Learning Programme:** brings together a number of separate programmes which support education and training activities, including Erasmus (co-operation in higher education), Grundtvig (further education), Leonardo (vocational education and training), and Comenius (for schools). Overall budget of approximately €7bn
- **LIFE+:** programme to support innovative actions in the field of the environment, with a budget of approximately €2bn for the whole period.

There is a plethora of other programmes in the field of culture, employment and social policy, civil protection, immigration, EU development policy, and other external co-operation programmes with countries outside of the EU.

All of these programmes are usually managed centrally from Brussels, and increasingly through Executive Agencies set up by the European Commission (which are "arms length")

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<sup>3</sup> Figure taken from page 11 of the Welsh Assembly Governments' response to the EU Budget Review consultation – see: [http://ec.europa.eu/budget/reform/library/contributions/pgs/20080410\\_PGS\\_25\\_contrib\\_en.pdf](http://ec.europa.eu/budget/reform/library/contributions/pgs/20080410_PGS_25_contrib_en.pdf)

<sup>4</sup> Source: [Rural Development Plan for Wales](#), Section 6: Financing Plan page 69:

bodies managed by the Commission). In some cases they include decentralised actions managed in the Member States (e.g. Leonardo and Erasmus) or ring-fenced funding for Member States (e.g. LIFE+), and in the case of the development programmes (e.g. with Africa), with the involvement of the European Commission representations in the countries concerned

## 5. UK Government and Welsh Government positions

The **UK Government's** views on the future EU Budget are set out in *Global Europe: vision for a 21<sup>st</sup> century budget*<sup>5</sup>, published in June 2008 in response to the European Commission's public consultation on the future of the EU Budget.

In their evidence to the Committee's inquiry into the future of EU Cohesion Policy, officials from the Department for Business Innovation and Skills drew from this paper in presenting the key elements of the UK line<sup>6</sup>.

This evidence (paragraph 3) said that resources:

...should be re-oriented towards EU action in three priority areas:

- building a prosperous Europe within a strong global economy;
- addressing the challenges of climate change; and
- ensuring security, stability and poverty reduction

It also called for the future EU budget to be designed around three principles: (i) clear EU added value (ii) proportionate and flexible, and recognising that "expenditure" is one amongst many different policy levers for EU action (iii) sound financial management.

It calls for the budget to be re-oriented to the new challenges facing Europe, and says (paragraph 5):

Structural and Cohesion should be targeted towards the less prosperous Member States to help them invest in measures to increase their productivity and adjust to the challenges of globalisation

The paper describes Cohesion Policy as a mechanism for **redistributing resources** from more prosperous to less prosperous **Member States**, and argues that this approach should be continued in the new budget.

It calls for Structural Funds to be "**phased out**" in richer Member States, and that (paragraph 7)

...the priority should be that standard 'competitiveness and employment' funding is ***no longer available*** to richer Member States [note: italics and bold have been added]

The **Welsh Government** gave a detailed response to the EU Budget Review consultation in April 2008<sup>7</sup>, based on the policies and priorities of the One Wales agenda.

<sup>5</sup> See [http://www.hm-treasury.gov.uk/int\\_global\\_vision.htm](http://www.hm-treasury.gov.uk/int_global_vision.htm)

<sup>6</sup> EUR(3) 13-09-paper 5 : 3 November 2009

<sup>7</sup> See [http://ec.europa.eu/budget/reform/library/contributions/pgs/20080410\\_PGS\\_25\\_contrib\\_en.pdf](http://ec.europa.eu/budget/reform/library/contributions/pgs/20080410_PGS_25_contrib_en.pdf)

The Welsh Government's response supports prioritising growth and jobs under the Lisbon Strategy (page 4); calls for transitional funding under the future Cohesion Policy (page 16 of the response); reiterates support for territorial co-operation programmes (page 18); and supports further phased-in reform of CAP but expresses caution in terms of assessing and addressing the impact of any future changes could have on rural communities (page 19).

The paper also calls for resources to be allocated to addressing the issues of sustainable development, climate change, energy and cross-border threats to health (page 5).

## 6. Terms of reference and key issues to be addressed

The following terms of reference is suggested:

- To clarify the European Commission's thinking on the shape of the future EU Budget, and assess the potential implications that the EU Budget Review could have on future EU funding opportunities for Wales, including impact on the EU Structural Funds and Common Agricultural Policy
- To clarify the UK Government line for future negotiations on the EU Budget Review, in comparison to the emerging views of the other Member States, and make an assessment as to whether or not the UK position maximises Welsh interests
- To clarify how the Welsh Government is engaging with the debate on the shape of the future EU Budget and how it is influencing the UK Government's position
- To make recommendations to the Welsh Government with a view to informing the negotiating position on the future EU budget.

The Committee may wish to focus in particular on the following questions/issues:

- What impact will the financial and economic crisis have on (i) the overall budget settlement, and (ii) the priorities for the future EU strategy?
- What will be the specific implications of changes to EU Cohesion Policy and CAP allocations to Wales? Does the Welsh Government have a strategy to pursue alternative sources of funding, in these two areas and in terms of looking at other EU funding programmes?
- What will be the "red lines" in the UK Government position in negotiations in Brussels during 2010-2012 period?
- What other views are emerging in Brussels? From other Member States, European Parliament, EU networks, regions? How do these views compare to those of the Welsh Assembly Government and the UK Government? Are there any aspects to these emerging views that would look interesting from a Welsh perspective?

## **7. Potential witnesses**

The Committee may wish to consider taking evidence from a selection of the following types of organisations/individuals:

### **Wales and UK:**

- Chancellor of the Exchequer, Rt Hon Sir Alistair Darling MP and/or senior Treasury Officials involved in preparing and negotiating the UK line in Brussels
- Welsh Government Ministers

### **European Commission services:**

- EU Budget Commissioner and/or officials from DG Budget and Secretariat General

Other possible witnesses (specifically in relation to Cohesion and CAP):

- DG Regional Policy (Commissioner and/or Director General)
- DG Agriculture & Rural Development (Commissioner and/or Director General)

### **European Council**

- Presidency of the European Union (Spanish Permanent Representation to EU and/or Belgian Permanent Representation to the EU)

### **European Parliament:**

- Welsh MEPs
- Possibly Chairs/or members from the Budget Committee, Regional Development Committee, and Agriculture Committee

### **Other European experts/EU networks (written evidence):**

- EU networks e.g. CPMR, Assembly of European Regions, Eurocities, Council of European Municipalities and Regions, BUSINESSEUROPE, Social Platform etc
- Other Member States/European regions