



Enterprise and Business Committee

EU update session

Briefing

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This briefing has been produced by the Gregg Jones, Head of the EU Office for use by the Enterprise and Business Committee. It follows on from previous briefings to the Committee on relevant developments at EU level over the past 12 months (including RS121450 - 14 June 2012 meeting; RS122467 and RS122390 - both for 27 September 2012 meeting; RS130161 -24 January 2013.)

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Contents

1.	Multi-annual Financial Framework 2014- 2020	3
1.1.	Trilogues	3
1.2.	Committee of the Regions	4
2.	EU Structural Funds proposals.....	5
2.1.	State of play in trilogue negotiations	5
2.2.	Negotiations/preparations at UK level	5
2.3.	Preparations in Wales	6
3.	Horizon 2020.....	7
4.	Youth unemployment	7
5.	Eurozone crisis, reform of economic governance, Banking Union.....	8
6.	Public Procurement.....	10
7.	Other development planned for 2013 of relevance to the Committee.....	11

1. Multi-annual Financial Framework 2014-2020

1.1. *Trilogues*

The discussions over the Multi-annual Financial Framework (MFF) for 2014-2020 provide the overarching context in which the other thematic/programme based discussions take place including of course the Structural Funds and Horizon 2020.

The European Council set out its position on 8 February with agreement amongst Member States on the overall budget ceilings (payments and commitments)¹. The deal sees cuts to the proposed framework for 2014-2020, **with the ceiling for ‘commitments’ lowered to €960 billion (European Commission’s proposal was €1033bn)**, and payments reduced to **€908.4bn (down from €988bn)**.

The UK rebate remained unscathed, as does CAP which is **cut by around €14bn compared** with the original European Commission proposals. Structural Funds took a cut, down to **€325bn (around €30bn less than for 2007-2013 period)**, although the architecture (Less Developed Regions, Transition Regions, and More Developed Regions) remains untouched. The biggest loser in these negotiations is the Connecting Europe Facility (finance to support EU-level transport, energy and ICT infrastructure networks), which drops from **€50bn originally proposed to €29bn**.

The agreement on 8 February is just amongst Member States. For the MFF to take effect agreement must also be reached with the European Parliament (and European Commission).

The European Parliament’s original position was diametrically opposed to the European Council, calling for an increase to the European Commission’s original proposals. This has softened as regards the principle of cuts, with the European Parliament rejecting the MFF deal at its plenary in March without challenging the proposed size of the MFF adopted by the European Council. However, the resolution adopted by the European Parliament on 13 March shifted emphasis towards ‘four red lines’, as the basis for the negotiations with the Council²:

- Comprehensive and compulsory review clause to be introduced (requiring a review of the whole EU budget during the MFF period)
- Agreement to an in-depth reform of own resources for future EU budgets
- Flexibility between budget headings to be introduced (to enable underspends in one part of the budget to be transferred to other parts of the EU budget, rather than automatically being returned to Member States at the end of each year).
- Insisting on the principle of the unity of the EU budget, requiring a statement each year in the draft EU budget summarising all expenditure and revenue resulting from decisions taken by, or in the name of, the EU institutions, including borrowing, lending and loan guarantee operations

¹ See <http://www.consilium.europa.eu/special-reports/mff>

² See <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0078+O+DOC+XML+V0//EN>

The other element in the European Parliament position is a requirement, as a pre-condition to opening negotiations with the Council, that the on-going **'deficit' in the EU** budget be addressed and resolved in the negotiations on a draft amending budget for 2013, by allocating an additional sum of **€11bn** (the maximum permissible) to enable commitments from the EU budget for 2013 to be met. This has direct relevance to Wales, where Structural Funds and CAP payments for 2013 (as well as payments to Welsh organisations under other EU programmes) could be affected if there is insufficient funding within the EU annual budget to cover existing commitments.

Up until last week the talks with the Council had stalled, in particular because the Council would not agree to the pre-condition on the EU Budget 2013 discussions. This has now been overcome following a meeting on 6 May between the Taoiseach Enda Kenny for the Irish Presidency of the Council, European Parliament President Martin Schulz and European Commission President José Manuel Barroso³.

The Irish EU Presidency has stated it is still aiming to reach a political agreement on the MFF by the end of its Presidency (end of June), although the formal agreement would potentially be delayed until the autumn.

This will have repercussions for start dates of programmes, as it is not possible to conclude the legislative proposals for the different funding streams until the MFF is formally signed off. The implications of this have already been seen with the CAP reform, as the European Commission has presented transitional measures to enable the current legal frameworks (for 2007-2013) to run through to end of 2014, and the CAP reform legislation to come into effect from 2015.

1.2. Committee of the Regions

Rhodri Glyn Thomas AM in his role as representative for the Assembly on the Committee of the Regions has written two reports relevant to the work of the Enterprise and Business Committee over the past eight months⁴:

- **own-initiative opinion on 'creating synergies between EU, national and sub-national budgets'**: adopted by the Committee of the Regions plenary on 31 January with cross-party support (one vote against)
- opinion, at the invitation of the Irish EU Presidency, on Synergies between private investment and public funding at local and regional levels - partnerships for economic growth and prosperity: adopted at the Committee of the Regions plenary on 11 April with cross-party support and unanimous vote

Rhodri presented an update on this work to Finance Committee on 30 January 2013⁵.

Follow up work:

- High Level Conference in Brussels (13 May): Chairing a panel session on his opinion

³ See [European Parliament press release](#)

⁴ Both reports are available from the following link: <https://toad.cor.europa.eu/CORWorkInProgress.aspx>

⁵ See [Transcript of Finance Committee meeting 30 January 2013](#)

- Conference in Poland (3-4 June): replacing the President of the Committee of the Regions
- Invitation to the European Programmes Partnership Forum in Merthyr, 1 July 2013

2. EU Structural Funds proposals

2.1. *State of play in trilogue negotiations*

The trilogue negotiations on the Structural Funds regulations were launched in the autumn of 2012.

A number of issues have been resolved during the negotiations, whilst a number of other issues remain – some directly linked to the budget negotiations, and the final deal on the allocation to Structural Funds.

The European Parliament and the Council reached an agreement on 19 December on a set of articles related to **“strategic programming”, including the principles around the** partnership agreement, code of conduct, and programming. They also agreed on the overall architecture of the future policy, keeping the planned three categories of regions: Less Developed (less than 75% EU average GDP); Transitional (>75% and <90%); More Developed (>90%).

This enabled the European Commission to publish guidelines in January 2013 for the **Partnership Agreements and for the Operational Programmes. The proposed ‘code of conduct’ for partnership** will be formalised, incorporated as part of the legal framework for the new structural funds proposals.

There are a number of outstanding issues to be resolved which the Irish EU Presidency is hoping to agree before the end of June.

The Irish Presidency is aiming to conclude the trilogue negotiations by the end of its Presidency (end of June) although this timeframe could be affected by any delays in the MFF discussions as outlined above, and it remains to be seen if they will be able to reach agreement on the outstanding elements in the Structural Funds negotiations itself by the end of June (for example the REGI Committee was critical of the process of the trilogue negotiations at its meeting on 23 April).

A couple of publications highlighted in **the European Commission’s rolling work** programme for 2013 are relevant to these discussions:

- Communication on "The Common Strategic Framework Funds and EU economic governance" (October 2013)
- Adoption of the partnership agreements for the European Structural and Investment Funds for the period 2014-2020 (November 2013)

2.2. *Negotiations/preparations at UK level*

On 26 March the UK Government set out its plans for distribution of the UK allocation for EU Structural Funds for 2014-2020, announcing that Wales would receive around **€2.145bn of the €11bn the UK would receive** under the deal reached in the European Council on the Multi-annual Financial Framework on 8 February.

This assumes, of course, that agreement is reached with the European Parliament that preserves the criteria for sharing funding between Member States and the levels of funding agreed by EU Heads of State and Government. The allocation to Wales includes an **adjustment of an additional €375m to the amount that Wales would have received had a** strict application of the EU level criteria been applied to the allocations within the UK. Under the MFF deal (and Structural Funds regulations) Member States are given a degree of flexibility to adjust the distribution of funding to regions within their territories. The total amount represents a reduction of around 5% on 2007-2013 allocations, and the Welsh Government is continuing its lobbying to try and reduce this cut further.

The preparations for the UK level ‘Partnership Agreement’ are on-going. The Welsh Government **will be responsible for drafting the ‘Welsh chapter’ to this Partnership Agreement.** Similarly, the preparations for the future Operational Programmes are on-going (see next section).

2.3. Preparations in Wales

In July 2012, the Deputy Minister launched a review of the arrangements for implementing EU funding programmes in Wales for the period 2014-2020, which was undertaken by Dr Grahame Guilford, member of the Structural Funds Programme Monitoring Committee. Dr Guilford presented his report in March 2013. The Minister for Finance, who has taken over responsibility for the Structural Funds management (and the Welsh European Funding Office) is due to present a statement in response to the review on 14 May 2013 (not available at time of writing this background paper).

The Welsh Government also established a European Programmes Partnership in the autumn of 2011 to oversee the preparation of the future programmes, and this body is now chaired by Ken Skates AM (who replaced Mark Drakeford AM following the cabinet reshuffle in March). Ken is also Chair of the All Wales Programme Monitoring Committee.

The Welsh Government launched a consultation on the future Structural Funds programmes 2014-2020 in January, with a deadline for responses of 23 April⁶. It received 125 responses, covering the West Wales and the Valleys and the East Wales programmes, broken down as follows: private Sector 17; FE/HE 18; public sector 42; Third sector 36; others 12. The Welsh Government has appointed an independent consultant to analyse the responses and from this the Welsh Government will publish its response by July. This will inform the final preparations of the draft Operational Programmes for 2014-2020 which are expected to be submitted to the European Commission in October this year, although this timeframe could change depending on the outcomes of the EU level negotiations on the legislative package.

On the question of ‘smart specialisation’ one of the ex-ante conditionalities proposed by the Commission for the CSF Funds, the Welsh Government launched a consultation in April (until mid-July), seeking stakeholders’ views on what is needed in the Innovation Strategy for Wales. The Welsh Government is reviewing the responses and is due to publish a White Paper during the autumn, which will go out to further consultation, setting out its view of what such a strategy could look like.

⁶ <http://wales.gov.uk/consultations/businessandeconomy/130114walesandtheeu/?lang=en>

This work is being led by David Rosser (ex-Director of CBI Wales), in his new role within the Enterprise, Science and Transport department within the Welsh Government. An external **'Task and Finish' Group is assisting the Welsh Government in this process, and is to be co-**chaired by Professor Kevin Morgan and Dr Adrian Healy (both advisers to the European Commission in this area).

3. Horizon 2020

The legislative proposals (six pieces of legislation) are being discussed in Council and the European Parliament in trilogue negotiations. These negotiations are scheduled to run until the end of the Irish Presidency, and the European Parliament has targeted a September first reading of the package, on the working assumption that an agreement is reached in the trilogue discussions.

This may be affected by delays in the negotiations on the MFF, although the general impression is that Horizon 2020 will receive **around €70bn (the figure widely quoted after the European Council February agreement, although the conclusions did not identify a specific amount for Horizon 2020).**⁷

At this stage it is difficult to say when the first calls from Horizon 2020 will be launched. Given the programmes will be centrally managed from Brussels this could in theory mean less likelihood of delays compared with the programmes managed and implemented at State and sub-State level. The European Commission is continuing in the background its preparations to get ready for the various anticipated work programmes and work streams for Horizon 2020, based on the draft texts.

4. Youth unemployment

The challenge of tackling the large and growing problem of youth unemployment within the EU is right at the top of the political and economic agenda in the EU. The number of young unemployed people reached 5.67 million in March 2013, averaging over 23% across the EU, and closing in on 60% in a number of Member States (including Spain and Greece). The level in the UK is over 20% whilst youth unemployment in Wales is over 23%⁸

Employment Ministers in the Council reached agreement in March on a [Recommendation for a Youth Guarantee at EU level](#) that commits Member States to ensuring that young people under 25 who lose their job or do not find work after leaving education quickly receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship.

Youth unemployment will also be one of the primary topics for EU Heads of State and Government at the European Council meeting in June, and it also featured prominently in the EU Summit of 7-8 February, where agreement was reached to create a new **Youth Guarantee Initiative, with €6 billion of EU funding (€3bn from the central budget and €3bn ESF funding ring-fenced) under the MFF for 2007-2013, focused on providing EU financial support to tackle youth unemployment.**

⁷ See interview with European Parliament rapporteur <http://www.earto.eu/european-news/detail/article/interview-with-maria-da-graca-carvalho-mep.html>

⁸ See http://europa.eu/rapid/press-release-STAT-13-70_en.htm and [Stats Wales unemployment data](#)

Following the European Council the European Commission presented further details on the proposed initiative, including draft amendments to the Structural Funds regulations, with the ESF identified as one of the means through which the Youth Guarantee Initiative would be implemented on the ground. The European Commission proposed an age limit of 25 and a threshold of 25% youth unemployment at NUTS II levels for regions to qualify.⁹

The European Parliament must give its support to the proposed changes, and the Employment and Social Affairs Committee discussed the draft at its meeting in April and proposed a number of amendments, including raising the age threshold to 30 years and reducing the unemployment threshold to 20%. Council and Parliament are aiming to reach a first reading agreement on the proposals over the coming months¹⁰.

One of the issues for Wales will be lobbying on the proposed criteria to stipulate which regions are eligible to participate. The proposed changes by the European Parliament would be significant as it would increase the range of potential beneficiaries, and could enable Wales to participate in the initiative.

5. Eurozone crisis, reform of economic governance, Banking Union

Over the past 3-4 years in particular there has been a plethora of legislation in the financial services and banking sector, aimed at introducing a stronger regulatory framework to address some of the perceived causes of the financial and economic crisis. There has also been a drive to strengthen the economic governance of the Eurozone (and the wider EU), within the context of the financial rescue packages put together for individual countries (e.g. Greece, Portugal, Ireland) including EU and IMF guarantees aimed at avoiding financial meltdown, and which with time has moved towards a **structured and more 'long-term'** approach to reform of the EMU.

The European Semester was one of the first measures, agreed in 2010 (and introduced in 2011), as an annual cycle to strengthen co-ordination between economic policies at EU and at Member State level, through the introduction of an Annual Growth Survey to inform the Stability and Growth Programmes/National Reform Programmes of Member States, and the subsequent country specific recommendations and guidelines agreed by the European Council. The legislative proposals for Structural Funds 2014-2020 have also sought to make a direct link between this economic policy cycle: through introduction of macro-economic conditionalities, and the link between programme priorities and relevant country specific recommendations.

Further steps have been taken to strengthen this process of co-ordination in budgetary discipline and decision-making through the so-called [Fiscal Compact Treaty](#) (agreed as **an 'international treaty' in December 2011 and** later signed by 25 Member States – UK and Czech Republic did not sign it) and the so-called Six-Pack and Two-Pack legislation (covering budgetary surveillance, introduction of budget breaks, stronger alignment of budgetary planning cycles etc.)¹¹ The Fiscal Compact Treaty also saw creation of a permanent [European Stability Mechanism](#) (it came into being in September 2012), which

⁹ See http://europa.eu/rapid/press-release_IP-13-217_en.htm

¹⁰ See [European Parliament web-site](#)

¹¹ See [European Commission web-site](#) for an explanation of the Six-Pack, Two-Pack and Fiscal Compact Treaty.

replaces the two temporary mechanisms introduced during the crisis to provide potential bailout facilities for Member States in crisis.

In June 2012 the European Council gave a mandate to the European Commission to come forward with proposals for a so-called **'Banking Union' to address four key areas**, as a key priority:

- Single Supervisory Mechanism for EU banking sector: agreement has been reached on this by the Council and European Parliament (March 2013), with the role to be performed by the European Central Bank. Creation of the SSM is a precondition for enabling use of the European Stability Mechanism.
- Bank capital requirements (CRD4 package): agreement reached with European Parliament in March 2013.
- Bank resolution and deposit guarantee schemes.
- Single resolution mechanism: proposals due in summer of 2013.

In addition to the above there are further measures being taken to strengthen the **'economic and monetary union' (EMU) of the EU, with the European Council giving a mandate for work to be undertaken to develop a 'roadmap' to integration of the EMU (with the Banking Union a core element of this) over the next 18 months and beyond.**

President of the European Council, Herman Van Rompuy, led this work producing a report **of the 'four' presidents (together with the Presidents of the European Commission**¹², European Central Bank and Eurogroup) to the December 2012 EU Summit, with EU leaders agreeing conclusions on the roadmap at this meeting¹³. Note that the December 2012 Conclusions outline a number of areas for further consideration at the June 2013 European Council meeting:¹⁴

"... a number of other important issues will be further examined by the June 2013 European Council, concerning the coordination of national reforms, the social dimension of EMU, the feasibility and modalities of mutually agreed contracts for competitiveness and growth, and solidarity mechanisms and measures to promote the deepening of the Single Market and to protect its integrity. Throughout this process, democratic legitimacy and accountability will be ensured."

The focus on the question of democratic legitimacy and accountability underlines one of the on-going tensions between strengthening central control and direction over economic policy and budgeting, and respecting national sovereignty.

In considering 'democratic legitimacy and accountability' the European Council conclusions make **explicit reference to the role of 'national parliaments' (i.e. Member State parliaments** – Houses of Parliament in the UK) and the European Parliament. The budgetary responsibility and roles of sub-state parliaments has not featured prominently in these

¹² The European Commission presented a **['Blueprint for deep and genuine Economic and Monetary Union' in November 2012.](#)**

¹³ [European Council conclusions 14 December 2012.](#) See also [European Council pages on economic governance.](#)

¹⁴ See [European Council conclusions 13 March 2013](#)

discussions to date, and no reference is made to sub-State parliaments in the European Council conclusions (although it could be argued the choice of wording highlighted in the quote below – i.e. **‘their parliaments’** – is ambiguous and could include sub-State parliaments):

“...At national level, moves towards further integration of the fiscal and economic policy frameworks would require that Member States ensure the appropriate involvement of their parliaments [bold added]. Further integration of policy making and greater pooling of competences must be accompanied by a commensurate involvement of the European Parliament. New mechanisms increasing the level of cooperation between national parliaments and the European Parliament, in line with Article 13 of the TSCG [Treaty on Stability and Growth in the Eurozone] and Protocol No 1 to the Treaties, can contribute to this process. The European Parliament and national parliaments will determine together the organisation and promotion of a conference of their representatives to discuss EMU related issues...” (paragraph 14, page 5, European Council conclusions 14 December 2012),

The European Commission published two communications in March (as part of the preparation for the June European Council) on EMU¹⁵:

- Communication on ex-ante coordination of plans for major economic policy reforms contains options on how to organise EU-level discussions on large-scale economic policy reforms in the Member States before final decisions are taken at national level.
- Communication on a Convergence and Competitiveness Instrument (CCI) sets out options for two instruments: contractual arrangements for Member States to undertake specific reforms and financial support to help Member States implement these reforms.

These are viewed as softly raising the question of whether or not a ‘Eurozone budget’ should be introduced at some point in the future, an issue that was raised during the autumn but which has since gone quiet.

6. Public Procurement

The Council, European Parliament and European Commission are currently in trilogue negotiations on the modernisation of public procurements directives (published originally at end of 2011). This follows agreement of a common position in the Council of Ministers in December 2012, and the European Parliament adopting its mandate for trilogues in January 2013.

The negotiators are working towards reaching political agreement in the trilogues by the end of the Irish EU Presidency to pave the way for first reading in European Parliament in September. The original draft texts proposed a transposition period of 18 months, but Council has pushed for this to be extended to 24 months of the legislation being adopted at EU level, although the UK Government is looking at the question of whether the Directives should be implemented earlier than this two-year requirement.

One area of concern for local government, including WLGA (and CEMR – the EU network for local authority associations) is a distinction of view between Council and Parliament on award criteria for tenders (Article 66 of the draft directive). The Council wants to maintain

¹⁵ See [European Commission web-site](#)

the current rules, which enable use of lowest cost criteria or use of ‘MEAT’¹⁶ (most economically advantageous tender – which enables social and environmental factors to be included in the criteria), whereas the European Parliament wants exclusive use of MEAT.

Another area of concern for local government is the proposed removal of distinctions between A and B services. Having accepted these are likely to be removed they are pushing for higher thresholds and lighter advertising requirements for social services contracts as a way of making the new approach more workable.

There are also issues to be resolved around whether online tendering is compulsory or not as well as technical rules governing criteria for dividing large tenders into batch lists and rules over participation of SMEs in tenders.

In a linked initiative, the European Commission is due to publish legislative proposals (anticipated in June 2013) on making e-invoicing in public procurement compulsory. The idea behind this initiative is to help smooth the operation of the Internal Market by promoting the use of B2G e-invoicing in the public sector and enhancing the interoperability of national e-invoicing systems. It is also aimed at helping to reduce the operating costs of enterprises and the procurement costs of public authorities.

7. Other development planned for 2013 of relevance to the Committee

This section provides a quick run through of other proposals and initiatives identified in **the European Commission’s rolling work programme for 2013, that look of most relevance to the Enterprise and Business Committee’s remit.**

These are included for information, and for the Committee to take into consideration as it undertakes its forward work planning for the rest of 2013.

- EU framework for Sustainable Urban Mobility Plans (Urban Mobility Package): Aims to provide cities with common rules and procedures related to strategic urban mobility decisions:
 - To make sure that the instruments used at local level are sufficiently harmonised so as to allow an efficient flow of goods and people while meeting local, national and EU objectives
 - To clarify the essential elements to be included in SUMPs and determine appropriate assessment/ validation processes
 - To establish a procedural framework to ensure consistency with EU policy objectives.
- Fair and efficient pricing for sustainable transport (Internal Road Market Package): The initiative will promote a more systematic use of distance related road charging to reflect infrastructure and external costs based on the polluter-pays and user pays principles. It will explore phasing in a harmonised charging system for lorries which could replace across the EU existing time-based charges (Eurovignette and national vignettes) and possibly other charges (such as vehicle taxes).

¹⁶ See definition of MEAT criteria on the [Procureweb](#) web-site (Procurement initiative of HE and FE in the UK)



- EU State Aid Guidelines, Frameworks and Regulations: a number of publications are due from the European Commission during 2013 including:
 - Guidelines on national regional aid for the period 2014-2020 (5 June 2013)
 - Community guidelines on state aid to promote risk capital investments in small and medium-sized enterprises (December 2013)
 - Community Framework for State aid for Research and Development and Innovation (November 2013)
 - Review of the Community Guidelines on financing of airports and Start-up aid to airlines departing from regional airports (4th quarter of 2013)
 - Review of the Community Guidelines on State aid for environmental protection (4th quarter of 2013).
- EU Ports Policy (due 21 May 2013): These proposals will have a strong focus on research and innovation activities of ports in the EU.
- Framework for crisis management and resolution for financial institutions other than banks (November 2013): The initiative aims to ensure that non-bank financial institutions can be effectively resolved without causing systemic impact.
- Possible follow up to the Green Paper: Long-term financing of the European economy (September 2013)
- Communication on European higher education in the world (June 2013)
- Communication on Annual Growth Survey 2014 (4th quarter 2013)
- Communication on Unlocking the Single Market for Green Products (2nd quarter 2013)