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PRESIDENCY ISSUES PAPER
Multiannual Financial Framework 2014-2020

Informal Meeting of Ministers and Secretaries of State for European Affairs
Nicosia, 30 August 2012

The Presidency has started substantive work on the Multiannual Financial Framework (MFF) guided by the conclusions of the European Council of 28/29 June 2012. The Presidency already conducted in July a round of bilateral consultations, at the level of Ministers and Secretaries of State responsible for European Affairs.

The objective of the Presidency for the Informal Meeting of Ministers and Secretaries of State for European Affairs in Nicosia on the 30th of August 2012 is to engage in a real and open exchange amongst Member States, as well as with the European Parliament, on key elements of the MFF. The discussions to be held will provide guidance to the Presidency to further develop the Negotiating Box as elaborated by the Danish Presidency, which, in accordance with the European Council conclusions, "provides a basis and orientations for the final stage of negotiation". It must be noted that further development of the negotiating box in the coming weeks should be seen as *work in progress* and without prejudice to the final position of Member States or of the European Parliament, since the whole effort is conducted on the basis that nothing is agreed until everything is agreed.

The Presidency will work intensively in the relevant bodies of the Council, involving the European Parliament as appropriate and in close cooperation with the President of the European Council, with a view to presenting a proposal to the European Council, which will provide a solid basis for the Heads of State and Government to reach an agreement before the end of the year. This should allow aiming for an agreement with the European Parliament by the end of this year.

This Paper reports briefly on the outcome of bilateral consultations held by the Presidency in July with all Member States and Croatia, and presents the Presidency´s proposed orientations for reflection by the delegations, as well as a brief reference to the next steps.

1. Bilateral Consultations

Following the discussion at the June European Council on the MFF, the Presidency conducted a round of bilateral consultations, at the level of Ministers and Secretaries of State responsible for European Affairs, between 10 and 19 July. The aim of these consultations was two-fold: first, to acquire an in-depth knowledge of the detailed positions of Member States, in particular as regards their top priorities and concerns in the negotiations; second, to explore possible areas of convergence of positions and search for common ground in view of future work.

There is general agreement that the future MFF must contribute to growth, investment and jobs. Views also largely converge on the need to ensure a true quality of spending, the simplification of instruments and a sufficient degree of flexibility in a number of areas. The link and balance between the expenditure and the revenue sides of the budget was highlighted by many delegations.

At the same time, contradictory views were expressed as to the best way to ensure the above-mentioned objectives and on many key issues. This applies in particular to the overall level of the MFF for 2014-2020. A number of delegations expressed the view that the EU budget should better reflect the fiscal consolidation efforts undertaken by Member States at national level and therefore requested a substantial reduction in the overall MFF in relation to the amount proposed by the Commission. A group of delegations, on the contrary, underlined the need for adequate financing of the Union's Policies and supported the overall amount proposed by the Commission and some an even higher amount. Furthermore, there were divergent views among Member States as regards the composition of the MFF and in the event that cuts were to be made, opinions varied among delegations as to how much each heading/policy should be affected.

In addition to the discussion on the overall level of expenditure and its composition, delegations expressed themselves on a large number of specific issues inside the headings, notably as regards: Cohesion Policy, in particular provisions linked to the calculation of allocations [capping, (including its effect in situations of economic recession), safety nets, reverse safety net, (including its connection with the correct level of the total envelope taken into account in the current period), co-financing rates, VAT eligibility and others] and the Common Agricultural Policy, in particular the balance between Pillars 1 and 2, modalities for convergence of direct payments, greening and some other provisions.

Delegations also expressed views on the other Headings in the MFF, notably as regards: access to the Horizon 2020 programme, size and composition of the Connecting Europe Facility, provisions relating to the funds under the Common Strategic Framework (macro-economic conditionality, pre-financing rates, automatic de-commitment rules), relative priorities of programmes within Heading 3 (Security and Citizenship), importance of the different programmes under Heading 4 (Global Europe), as well as the need for reforms in the administrative expenditure of the EU.

Regarding the Revenue Side of the MFF, a number of delegations reiterated their position for a full revamp of the present Own Resource System (new own resources, correction mechanisms, collection costs) with some accepting the Commission proposals as a first step in the right direction. Quite a few delegations advocated some changes in the present system, in order to ensure more transparency, simplicity, equity and efficiency. Few, however, stressed the need to maintain in principle the current system of own resources. As regards to corrections, many delegations would prefer to see no rebates at all. In the event this is difficult to achieve in the next MFF, some would support the Commission proposal on a system of lump sums. This even includes some of the delegations presently benefitting from such mechanisms. Others strongly insist on keeping their current rebate. It should be added that some delegations insist that if current correction mechanisms are kept, their own country should also benefit from one.

A number of delegations stressed also the importance they attribute to their more specific concerns.

All delegations, finally, expressed readiness to work towards reaching an agreement on the MFF before the end of this year.

2. Issues for Discussion

On the basis of the outcome of discussions within the Council since July 2011 as well as on the most recent bilateral consultations, the Presidency submits hereby the orientations for discussion at the Informal Meeting. The exchange of views on the elements described below will guide the Presidency into the next step i.e. the revision of the Negotiating Box in September:

Overall Guiding Principles

The Presidency will be guided by the conclusions of the European Council of 28/29 June 2012 that ‘‘within the future multiannual financial framework, spending should be mobilised to support growth, employment, competitiveness and convergence, in line with the Europe 2020 Strategy’’. In its proposals it will particularly take into account the challenges raised by the economic and financial crisis, the consolidation efforts being made by the Member States and the overall fairness of the agreement.

The Presidency also recognises the importance of ‘‘better spending’’, in particular within a tight overall framework. Efforts, therefore, towards improving the quality of spending of the Union's funds need to include, inter alia, the elements related to better governance of the policies including certain conditionalities, flexibility, simplification in delivery, and an appropriate use of financial instruments.

Total Level of the MFF

The bilaterals have confirmed that an agreement cannot be found at the overall level proposed by the Commission in its proposals, as updated on 6 July 2012. The Presidency recognizes that it is, therefore, inevitable that the total level of expenditure proposed by the Commission, including all elements inside and outside of the MFF, will have to be adjusted downwards.

Expenditure Side

Level of Spending under each Heading

Given the diverging views on which headings to be reduced, the Presidency considers that all headings need to be subject to reduction efforts, taking into account the overview of delegations' key priorities and concerns. In weighting potential reductions, a number of interrelated key elements should be taken into account:

- the need for appropriate financing to fulfill the Treaty objectives of a given policy;
- the contribution of a given policy towards the overall objectives of the Union and notably to growth and jobs;
- the level and balance of expenditure proposed by the Commission as compared to the current MFF;
- the relative size of the Headings;
- the cost effectiveness of different elements of headings/policies/instruments.

Content of Headings

Concerning expenditure within the different Headings, the Presidency feels that readjustments could be considered both to the allocation of expenditure to the different components of each Heading and to some of the qualitative provisions contained in the Negotiating Box, with a view to ensuring a better focus on EU priorities and responding to the legitimate concerns expressed by Member States as well as allowing, wherever possible, a degree of flexibility.

In this respect, the Presidency suggests to have a close look at the following issues under each Heading/sub-heading:

Sub-Heading 1a**:** The Presidency retains that programmes under this sub-heading have a high potential to contribute to the fulfillment of the Europe 2020 Strategy; however, they will also have to contribute to the overall reduction. Whilst recognising the strategic importance of the Connecting Europe Facility (CEF), the Presidency notes that the telecommunications part has received less support by Member States than transport and energy and considers that the size and relative weight given to the three strands of the Connecting Europe Facility, as well as the scope of the proposed transfer of 10 billion euro from the Cohesion Fund, need to be reconsidered. Furthermore, efforts should be made to ensure broad access of participants from all Member States to the Horizon 2020 programme, without questioning the principle of excellence.

***Sub-Heading 1b*:** It would seem to reflect a growing consensus that the required downward adjustment on the Cohesion Policy should affect relatively more the transition and more developed regions, than the less developed regions, on which support should be further concentrated. For the allocations per Member State and region, while calculation methods based on objective criteria underlying the Commission proposal need to be maintained, it should be ensured at the same time that appropriate transitional arrangements and some provisions related to minimum and maximum size of allocations are in place. Within this context, inter alia, eligibility, scope and coverage of the proposed by the Commission "safety nets" for regions and Member States need to be further discussed. Some other provisions under Cohesion Policy need also to be further discussed and adjusted accordingly.

***Heading 2*:** Concerning the Common Agricultural Policy, given the sharply opposite preferences of the Member States, the contribution to the overall reduction has to come from both Pillars and further discussion is needed regarding the relative priority between them. At the same time, while respecting the distinct objectives of the two Pillars, it would seem appropriate to provide for somewhat more flexibility between them, possibly in both directions. The principle of a more equitable distribution of direct support is accepted, while further consideration is required on the ambition and speed of convergence as well as on degressivity. The Presidency understands that the majority of Member States consider that the distribution key for rural development is a necessary part of the overall agreement on the MFF.

***Other Headings*:** Headings 3, 4 and 5 will also have to contribute to reductions, taking into account the specific challenges to be addressed under each Heading. Certain provisions relating to areas under these headings may require further consideration.

Horizontal Issues: There is consensus on having a Common Strategic Framework, covering the structural and cohesion funds, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. Regarding macroeconomic conditionality, while there seems to be a growing acceptance in principle, the need to ensure fair and equal treatment of Member States and consistency with ongoing efforts to overcome the effects of the economic crisis, the situation of Member States with temporary budgetary difficulties, details regarding its application to commitments and/or payments, the degree of automaticity, and the ceiling on suspended amounts still need to be discussed. Other issues which need more reflection are the de-commitment rules and pre-financing.

Revenue Side

Regarding the revenue side of the MFF, the Presidency, taking into account the discussions held so far and based on the understanding that there is a large majority of Member States in favour of some kind of reform of the system of financing of the EU budget, suggests focusing on the following points:

- VAT: The proposed abolition of the current VAT own resource and the Commission proposal on a new VAT own resource requires careful additional analysis in terms of its consequences and its relevance in terms of simplification, innovative character, possible increased consistency with the Treaty and fairness.

- FTT: concerning the possible use of the proceeds of an FTT as own resources, the move towards *enhanced cooperation* would create a new situation requiring careful analysis, as set out in the paper recently submitted by the Commission.
- Collection Costs: The Presidency will reflect on the possible way forward based on further analysis, bearing in mind the rationale of the Commission proposal for its reduction as well as the importance some Member States attach to the maintenance of the current percentage.
- Correction Mechanisms: The correction mechanisms are related to the question of "juste retour", the relevance of which needs to be addressed as well as the relation between correction mechanisms, level of expenditure, and benefits from particular policies. The issue of correction mechanisms and relevant modalities remain a complicated one. In this respect the Presidency notes that, although many Member States support the abolition of all corrections, there are also divergent views, including the position taken by a few Member States that, in the event that corrections remain in place, they are entitled to request a correction as well. The Presidency considers that the question of corrections is a key component of the final agreement and requires more reflection and work. Within this framework and respecting the Fontainebleau principle, further assessment of the methodology to be used including the system of lump sums as suggested by the Commission is needed. Other elements and options which could contribute to the simplification and the rationalisation of the present system could be examined.

Delegations are invited to reflect on the above issues and to express their positions during the Informal Meeting of Ministers and Secretaries of State for European Affairs on the 30th August.

3. Timing – Next Steps

The next step by the Presidency will be the presentation of a revised version of the Negotiating Box including ranges of figures/some figures in September, along the above lines and paying due consideration to the outcome of the Informal Meeting of Ministers and Secretaries of State for European Affairs. The Negotiating Box will be revised thereafter as required taking into account the discussions in COREPER and the General Affairs Council. It shouldn't be considered though, more than *work in progress* at least up to the point of time that the Presidency will present at the General Affairs Council its comprehensive proposal.

The Presidency will, throughout the process, cooperate closely with the President of the European Council. The content of the Negotiating Box will reflect the constant osmosis between the work done at various institutional levels and fora, in order to facilitate an agreement at the European Council level before the end of year**,** in accordance with the June European Council conclusions.

Throughout this process, the Presidency will cooperate closely with the European Parliament and the European Commission in order to facilitate a common understanding based on existing arrangements and, as required, proposing adjustments *mutatis mutandis*, leading to the timely adoption of the relevant decisions, in line with the procedures enshrined in the Treaty and fully respecting the role and the prerogatives of the European Parliament.

The Presidency will also do its utmost to ensure that work on the sectoral legislative proposals will proceed as quickly as possible in parallel to the horizontal negotiation on the MFF, following the procedures enshrined in the Treaty and cooperating closely with all competent institutions, in line with Treaty competences. Reaching an agreement by the end of this year will facilitate the timely conclusion of the legislative work on all sectoral proposals and the subsequent preparation of programmes and projects to be implemented as from 2014.