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THE EUROPEAN UNION

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NOTE

from:	Presidency
to:	Permanent Representatives Committee / Council
Subject:	Multiannual Financial Framework (2014-2020) - Sections of Negotiating Box relating to Headings 1 (cohesion and CEF) and 2 and to provisions relating to the funds under the Common Strategic Framework

Delegations will find enclosed the sections of the Negotiating Box relating to Headings 1 (cohesion and CEF) and 2 and to provisions relating to the funds under the Common Strategic Framework.

The Negotiating Box is drawn up and developed under the responsibility of the Presidency. It is not binding on any delegation. This will remain the case throughout the negotiating process. The Presidency continues to be guided by the principle that nothing is agreed until everything is agreed.

The Negotiating Box is not a report on the discussions so far. It draws on the input provided by the orientation debates held since July 2011 and has an evolving character. Gradually, as the process advances, it will be updated following discussions within the Council.

HEADING 1 - COHESION AND CONNECTING EUROPE FACILITY

<u>COHESION POLICY</u>

1. One important objective of the European Union is to promote economic, social and territorial cohesion and solidarity among Member States. Cohesion policy is in this respect the main tool to reduce disparities between Europe's regions and must therefore concentrate on the less developed regions and Member States.Furthermore Cohesion policy shall contribute to the Europe 2020 Strategy for smart, sustainable and inclusive growth throughout the European Union. Through the <u>European Regional Development Fund</u> (ERDF), the <u>European Social Fund</u> (ESF) and the <u>Cohesion Fund</u> (CF), it will pursue the following goals: "<u>Investment for growth and jobs</u>" in Member States and regions, to be supported by all the Funds; and "<u>European territorial cooperation</u>", to be supported by the ERDF. The Cohesion Fund will support projects in the field of environment and transport trans-European networks.

2. As regards the <u>structure</u> of the Heading and considering the specificities of cohesion policy, cohesion expenditure [and the CEF] will be contained within a [sub-ceiling] OR [sub-heading] under Heading 1.

Overall level of allocations

3. The level of commitments for cohesion policy will not exceed :

COHESION POLICY (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X

4. Resources for the "Investment for growth and jobs" goal will amount to xx % of the global resources (i.e., a total of EUR xx) and will be allocated as follows:

   (a) xx % (i.e., a total of EUR xx) for less developed regions;

   (b) [xx % (i.e., a total of EUR xx) for transition regions;]

   (c) xx % (i.e., a total of EUR xx) for more developed regions;

   (d) xx % (i.e., a total of EUR xx) for Member States supported by the Cohesion Fund;

   (e) xx % (i.e., a total of EUR xx) as additional funding for the outermost regions identified in Article 349 of the Treaty and the northern sparsely populated regions fulfilling the criteria laid down in Article 2 of Protocol No 6 to the Treaty of Accession of Austria, Finland and Sweden.

5. Resources for the "European territorial cooperation" goal will amount to xx % of the global resources available for budgetary commitment from the Funds for the period 2014 to 2020 (i.e. a total of EUR xx), which will be distributed as follows:

   (a) xx % (i.e., a total of EUR xx) for cross-border cooperation;

   (b) xx % (i.e., a total of EUR xx) for transnational cooperation;

   (c) xx % (i.e., a total of EUR xx) for interregional cooperation.

6. [xx%] of the global resources will be allocated to technical assistance at the initiative of the Commission.

7. [[0,2%] of the ERDF resources for the Investment for growth and jobs goal will be allocated to innovative actions at the initiative of the Commission in the area of sustainable urban development.]

Definitions and eligibility

8. Resources for the "Investment for growth and jobs" goal will be allocated to [three] types of regions, defined on the basis of how their GDP per capita, measured in purchasing power parities and calculated on the basis of Union figures for the period [2007 to 2009], relates to the average GDP of the EU-27 for the same reference period, as follows:

   (a) less developed regions, whose GDP per capita is less than 75 % of the average GDP of the EU-27;
   (b) [transition regions, whose GDP per capita is between [75% and 90%] of the average GDP of the EU-27] OR [whose GDP per capita for the 2007-2013 period was less than 75% of the EU-25 average but whose GDP per capita is above 75% of the GDP average of the EU-27] OR [there will be no transition regions].
   (c) [more developed regions, whose GDP per capita is above [75% OR 90 %] of the average GDP of the EU-27] OR [all regions not covered under 8a and 8b)].

9. The Cohesion Fund will support those Member States whose gross national income (GNI) per capita, measured in purchasing power parities and calculated on the basis of Union figures for the period [2008 to 2010], is less than 90 % of the average GNI per capita of the EU-27 for the same reference period.

10. For cross-border cooperation, the regions to be supported will be the NUTS level 3 regions of the Union along all internal and external land borders, and all NUTS level 3 regions of the Union along maritime borders separated by a maximum of 150 km, without prejudice to potential adjustments needed to ensure the coherence and continuity of cooperation programme areas established for the 2007-2013 programming period.

11. For transnational cooperation, the Commission will adopt the list of transnational areas to receive support, broken down by cooperation programme and covering NUTS level 2 regions while ensuring the continuity of such cooperation in larger coherent areas based on previous programmes.

12. For interregional cooperation, support from the ERDF will cover the entire territory of the Union.

Allocation method

Allocation method for less developed regions

13. The specific level of allocations to each Member State will be based on an objective method and calculated as follows :

Each Member State's allocation is the sum of the allocations for its individual eligible regions, calculated according to the following steps:

(i) determination of an absolute amount (in euro) obtained by multiplying the population of the region concerned by the difference between that region's GDP per capita, measured in purchasing power parities (PPS), and the EU 27 average GDP per capita (PPS);

(ii) application of a percentage to the above absolute amount in order to determine that region's financial envelope; this percentage is graduated to reflect the relative prosperity, measured in purchasing power parities (PPS), as compared to the EU 27 average, of the Member State in which the eligible region is situated, i.e.:

– for regions in Member States whose level of GNI per capita is below [82]% of the EU average: [3.3]%
– for regions in Member States whose level of GNI per capita is between [82]% and [99]% of the EU average: [2.1]%
– for regions in Member States whose level of GNI per capita is over [99]% of the EU average: [1.7]%;

(iii) to the amount obtained under step (ii) is added, if applicable, an amount resulting from the allocation of a premium of [EUR 800] per unemployed person per year, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU less developed regions applied.

(iv) [to the amount obtained under step (iii) is added, if applicable, an amount resulting from the allocation of a premium of EUR [4] per person per year, applied to the population of cities with more than 250,000 inhabitants.] OR [There will be no urban premium.]

14. The result of the application of this methodology is subject to capping.

<u>[Allocation method for transition regions</u>

15. The specific level of allocations to each Member State will be based on an objective method and calculated as follows :

Each Member State's allocation is the sum of the allocations for its individual eligible regions, calculated according to the following steps:

(i) determination of the minimum and maximum theoretical aid intensity for each eligible transition region. The minimum level of support is determined by the average per capita aid intensity per Member State [before [two third] regional safety net and urban population bonus] allocated to the more developed regions of that Member State. The maximum level of support refers to a theoretical region with a GDP per head of [75%] of the EU27 average and is calculated using the method defined in paragraph 13(i) and (ii) above. Of the amount obtained by this method, [75%] is taken into account.

(ii) calculation of initial regional allocations, taking into account regional GDP per capita through a linear interpolation of the region's relative wealth compared to EU-27;

(iii) to the amount obtained under step (ii) is added, if applicable, an amount resulting from the allocation of a premium of [EUR 400] per unemployed person per year, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU less developed regions applied;

(iv) [to the amount obtained under step (iii) is added, if applicable, an amount resulting from the allocation of a premium of EUR [4] per person per year, applied to the population of cities with more than 250,000 inhabitants.] OR [There will be no urban premium.]

OR

[Other allocation methods for regions between [75%] and [90%] of EU average.]

16. The result of the application of this methodology is subject to capping.

<u>Allocation method for more developed regions</u>

17. The total initial theoretical financial envelope is obtained by multiplying an average aid intensity per head and per year of EUR [22.6] by the eligible population.

18. The share of each Member State concerned is the sum of the shares of its eligible regions, which are determined on the basis of the following criteria, weighted as indicated:

- total regional population (weighting [25%]),
- number of unemployed people in NUTS level 2 regions with an unemployment rate above the average of all more developed regions (weighting [20%]),
- employment to be added to reach the Europe 2020 target for regional employment rate (ages 20 to 64) of 75% (weighting [20%]),
- number of people aged 30 to 34 with tertiary educational attainment level to be added to reach the Europe 2020 target of 40% (weighting [12.5%]),
- number of early leavers from education and training (aged 18 to 24) to be subtracted to reach the Europe 2020 target of 10% (weighting [12.5%]),

- difference between the observed GDP of the region (in PPS) and the theoretical regional GDP if the region would have the same GDP/head as the most prosperous NUTS2 region (weighting [7.5%]),
- population of NUTS level 3 regions with a population density below [12.5 inh./km²] (weighting [2.5%]).

[To the amount obtained is added, if applicable, an amount resulting from the allocation of a premium of EUR [4] per person per year, applied to the population of cities with more than 250,000 inhabitants.] OR [There should be no urban premium.]

Allocation method for the Cohesion Fund

19. The total theoretical financial envelope is obtained by multiplying the average per capita aid intensity of EUR [50] by the eligible population. Each eligible Member State's *a priori* allocation of this theoretical financial envelope corresponds to a percentage based on its population, surface area and national prosperity, and obtained by applying the following steps:

(i) calculation of the arithmetical average of that Member State's population and surface area shares of the total population and surface area of all the eligible Member States. If, however, a Member State’s share of total population exceeds its share of total surface area by a factor of five or more, reflecting an extremely high population density, only the share of total population will be used for this step;

(ii) adjustment of the percentage figures so obtained by a coefficient representing one third of the percentage by which that Member State's GNI per capita (PPS) for the period [2008-2010] exceeds or falls below the average GNI per capita of all the eligible Member States (average expressed as 100%).

20. In order to reflect the significant needs of Member States, which acceded to the Union on or after 1 May 2004, in terms of transport and environment infrastructure, their share of the Cohesion Fund will be set at [one third] of the total final financial allocation after capping (structural funds plus Cohesion Fund) received on average over the period.

21. [The Member States fully eligible for funding from the Cohesion Fund in 2013, but whose nominal GNI per capita exceeds 90% of the average GNI per capita of the EU-27 will receive support from the Cohesion Fund on a transitional and specific basis. This transitional support will be of EUR [50] per capita in 2014 and will degressively be phased out by 2020.]

22. The result of the application of this methodology is subject to capping.

<u>Allocation method for "European territorial cooperation"</u>

23. The allocation of resources by Member State, covering cross-border and transnational cooperation, is determined as the weighted sum of the share of the population of border regions and of the share of the total population of each Member State. The weight is determined by the respective shares of the cross-border and transnational strands. The shares of the cross-border and transnational cooperation components are [77.9] % and [22.1] %.

<u>Allocation method for outermost and sparsely populated regions</u>

24. Outermost regions and northern sparsely populated NUTS level 2 regions will benefit from an additional special allocation with an aid intensity of EUR [20] per inhabitant per year. It will be distributed per region and Member State in a manner proportional to the total population of these regions.

Capping

25. In order to contribute to achieve adequate concentration of cohesion funding on the least developed regions and Member States and to the reduction of disparities in average per capita aid intensities, the maximum level of transfer to each individual Member State will be set at [2.5]% of GDP. The capping will be applied on an annual basis, and will - if applicable - proportionally reduce all transfers (except for the more developed regions and "European territorial cooperation") to the Member State concerned in order to obtain the maximum level of transfer. [For Member States which acceded to the Union before 2013 and whose average real GDP growth 2008-2010 was lower than the EU27 average, the maximum level of transfer shall be set at [2.x]% of GDP.]

26. [The maximum level of allocations to each individual Member State for the period 2014-2020 will be set at [X] % of its individual 2007-2013 total allocation For Member States which acceded to the Union on 1 January 2007, the maximum level of allocations will be set at [X] % of 7/5 of their individual total allocations for the period 2009-2013. The maximum level of allocations shall not be applicable to Member States which acceded to the Union after 1 January 2007.]

Safety nets

27. For all regions whose GDP per capita for the 2007-2013 period was less than 75% of the EU-25 average, but whose GDP per capita is above 75% of the EU-27 average, the minimum level of support in 2014-20 will correspond to a degressive percentage of their former indicative average annual allocation under the Convergence allocation, calculated by the Commission within the multiannual financial framework 2007-2013. These percentages will be [xx%] in 2014, [xx%] in 2015, [xx%] in 2016, [xx%] in 2017, [xx%] in 2018, [xx%] in 2019 and [xx%] in 2020. Over the period 2014-2020 the total support will represent at least [55% - 2/3] of the support in the period 2007-2013.

28. The minimum total allocation (Cohesion Fund and Structural Funds) for a Member State shall correspond to [55] % of its individual 2007-2013 total allocation. The adjustments needed to fulfil this requirement are applied proportionally to the allocations of the Cohesion Fund and the Structural Funds, excluding the allocations of the European territorial cooperation objective.

Co-financing rates

29. The co-financing rate at the level of each priority axis of operational programmes under the "Investment for growth and jobs" goal will be no higher than:

(a) [75 - 85] % for the Cohesion Fund;

(b) [75 - 85] % for the less developed regions of Member States whose average GDP per capita for the period 2007 to 2009 was below [85 %] of the EU-27 average during the same period and for the outermost regions;

(c) [75 - 80]% for the less developed regions of Member States other than those referred to in point (b) eligible for the transitional regime of the Cohesion Fund on 1 January 2014;

(d) [75]% for the less developed regions of Member States other than those referred to in points (b) and (c), and for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27;

(e) [60] % for the transition regions other than those referred to in point (d);

(f) [50] % for the more developed regions other than those referred to in point (d).

The co-financing rate at the level of each priority axis of operational programmes under the "European territorial cooperation" goal will be no higher than [75]%. [For those programmes where there is at least one less developed region participating the co-financing rate under the "European territorial cooperation" goal can be raised up to [85]%.]

The co-financing rate of the additional allocation for outermost regions identified in Article 349 of the Treaty and the NUTS level 2 regions fulfilling the criteria laid down in Article 2 of Protocol No 6 to the Treaty of Accession of Austria, Finland and Sweden will be no higher than [50]%.

30. Increase in payments for Member State with temporary budgetary difficulties.

a) [A higher co-financing rate (by [10] percentage points) can be applied when a Member State is receiving financial assistance in accordance with Articles 136 and 143 of the TFEU, thus reducing the effort required from national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding.]

OR

b) [In order to fully respect the principle of co-financing, the levels set out in the paragraph above may not be increased when a Member State is receiving financial assistance in accordance with Articles 136 and 143 of the TFEU.]

CONNECTING EUROPE FACILITY

31. Interconnected transport, energy and digital networks are an important element in the completion of the European single market. Moreover, investments in key infrastructures with EU added value can boost Europe's competitiveness in the medium and long term in a difficult economic context, marked by slow growth and tight public budgets. Finally, such investments in infrastructure are also instrumental in allowing the EU to meet its sustainable growth objectives outlined in the Europe 2020 Strategy and the EU's "20-20-20" objectives in the area of energy and climate policy. At the same time measures in this area will respect market actors' main responsibilities for planning and investment in energy and digital infrastructure.

32. The financial envelope for the implementation of the Connecting Europe Facility for the period 2014 to 2020 will be EUR xx. That amount will be distributed among the sectors as follows:

(a) transport: [63.4] % equivalent to EUR XX, [out of which [31.5] % equivalent to [EUR xx] will be transferred from the Cohesion Fund to be spent in line with the CEF Regulation in Member States eligible for funding from the Cohesion Fund];

(b) energy: [18.2] % equivalent to EUR XX;

(c) telecommunications: [18.4] % equivalent to EUR XX.

The Commission can use financial instruments as an integral element of the CEF. The total volume of means used for financial instruments will not exceed [x] million euro.

33. [The <u>transfer</u> from the Cohesion Fund for transport infrastructure under the Connecting Europe Facility will be implemented in respect of projects listed in the annex to the CEF Regulation],

(a) [giving greatest possible priority to projects respecting the national allocations under the Cohesion Fund.]

OR

(b) [Alternative provisons concerning the transfer of funds from the cohesion fund to CEF.]

OR

(c) [There will be no transfer from the Cohesion Fund to the Connecting Europe Facility.]

<u>FOOD FOR DEPRIVED PEOPLE</u>

[To be removed from the section on cohesion policy. Place in the negotiation box to be decided.]

34. [The support for food for deprived people will be EUR xx and will be placed within heading [2] OR [3].]

OR

[The food for deprived people programme will not be continued after 2013]

HEADING 2 - SUSTAINABLE GROWTH : NATURAL RESOURCES

35. The objectives of the Common Agricultural Policy (CAP) is to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture, to stabilise markets, to ensure the availability of supplies and to ensure that supplies reach consumers at reasonable prices. Account should be taken of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions.

36. Against that background reforms must ensure 1) a viable food production; 2) sustainable management of natural resources and climate action; and 3) balanced territorial development. Furthermore, the CAP should be thoroughly integrated into the Europe 2020 strategy objectives notably the objective of sustainable growth, while fully respecting the objectives of this policy as set out in the Treaty.

37. Commitment appropriations for this Heading, which covers agriculture, rural development, fisheries and a financial instrument for the environment and climate action will not exceed the following level:

SUSTAINABLE GROWTH : NATURAL RESOURCES (Million euros, 2011 prices)						
2014	2015	2016	2017	2018	2019	2020
X	X	X	X	X	X	X
of which : Market related expenditure and direct payments						
X	X	X	X	X	X	X

38. The Common Agriculture Policy for the period 2014-2020 will continue to be based on the two pillar structure :

- Pillar I will provide direct support to farmers and finance market measures. Direct support and market measures will be funded entirely and solely by the EU budget, so as to ensure the application of a common policy throughout the single market and with the integrated administration and control system (IACS).

- Pillar II of the CAP will deliver specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors promote the diversification of economic activity and quality of life in rural areas including regions with specific problems. Measures in Pillar II will be co-financed by Member States, which helps to ensure that the underlying objectives are accomplished and reinforces the leverage effect of rural development policy.

Pillar I

Level and model for redistribution of direct support - details of convergence across Member States

39. Direct support will be more equitably distributed between Member States, while taking account of the differences that still exist [in wage levels and input costs], by stepwise reducing the link to historical references and having regard to the overall context of Common Agriculture Policy and the Union budget.

40. All Member States with direct payments per hectare below [90%] of the EU average will close [one third] of the gap between their current direct payments level and [90]% of the EU average in the course of the next period. [This convergence will be financed by all Member States [with direct payments above the EU average, proportionally to their distance from the EU average] OR [in a linear manner]. This process will be implemented progressively over [4] years from financial year [2015] to financial year [2018]].

Capping of support to large farms

41. Capping of the direct payments for large beneficiaries will be introduced while taking due account of employment. The proceeds of the reduction and capping of payments to large beneficiaries should remain in the Member States where they were generated [and should be used for financing projects with a significant contribution to innovation under the EAFRD] OR [and should be used under the EAFRD.].

OR

[There will be no capping of the direct payments for large beneficiaries.]

Method for financial discipline

42. [With a view to ensuring that the amounts for the financing of the CAP comply with the annual ceilings set in the multiannual financial framework, the financial discipline mechanism currently provided for in Article 11 of the Regulation 73/2009, pursuant to which the level of direct support is adjusted when the forecasts indicate that the sub-ceiling of heading 2, is exceeded in a given financial year should be maintained, but without the safety margin of EUR 300 000 000.]

OR

[Other provisions concerning financial discipline, including the possibility of maintaining the safety margin and introducing a minimum threshold for farmers affected].

Other elements relating to Pillar I

43. [The total amount available for direct payments will be reduced by [X] per cent per year from financial year [x] to financial year [y].]

[The total amount available for other measures under pillar I than direct payments will be reduced by [[X] per cent in year [X]] AND/OR [followed by a reduction of] [[X] per cent per year].]

[The result of these two elements will be incorporated in the table in paragraph 37 above.]

Greening [of direct payments]

44. The overall environmental performance of the CAP will be enhanced through the greening of direct payments by means of certain agricultural practices, to be defined in the *Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy*, beneficial for the climate and the environment [that all farmers will have to follow]. [Flexibility for the Member States relating to the choice of greening mesures will be established.] In order to finance those practices, Member States will use [30] % of the annual national ceiling.

OR

[Other provisions aiming at enhancing the overall environmental performance of the CAP.]

Flexibility between pillars

45. Member States may decide to make available as additional support for measures under rural development programming financed under the EAFRD, up to [10] % of their annual national ceilings for calendar years 2014 to 2019 as set out in Annex II to the Regulation on direct payments. As a result, the corresponding amount will no longer be available for granting direct payments.

46. Member States with direct payments per hectare below [90%] of EU average after general budget reduction, phasing in and redistribution may decide to make available as direct payments under this Regulation up to [5] % of the amount allocated to support for measures under rural development programming financed under the EAFRD in the period 2015-2020. As a result, the corresponding amount will no longer be available for support measures under rural development programming.

Pillar II

Principles for distribution of rural development support

47. Support for rural development will be distributed between Member States based on objective criteria and past performance, while taking into account the objectives of the rural development and having regard to the overall context of Common Agriculture Policy and the Union budget.

48. The overall amount of support for rural development will be EUR [X]. [The annual breakdown will be fixed by the European Parliament and the Council.] [Amounts for the individual Member States will be adjusted to take account of the above mentioned provisions in paragraphs [41,] 45 and 46.]

49. [The Commission will, by means of an implementing act, make an annual breakdown by Member State of the final amounts [(including amount generated by the capping of the direct payments)]. In making the annual breakdown the Commission will take into account objective criteria and past performance:]

[Objective criteria to be defined relating to:

- the competitiveness of agriculture;
- sustainable management of natural resources, climate action;
- balanced territorial development of rural areas.]

OR

[The distribution of the overall amount for rural development between Member States is among others based on objective criteria and past performance and will be as follows: (insertion of table with distribution of rural development support between Member states).]

Co-financing rates for rural development support

50. The rural development programmes will establish a single EAFRD contribution rate applicable to all measures. Where applicable, a separate EAFRD contribution rate will be established for less developed regions [,transition regions] and for outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93. The maximum EAFRD contribution rate will be:

- [75 - 85]% of the eligible public expenditure in the less developed regions, the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93 ;

- [[75]% of the eligible public expenditure for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27];

- [60] % of the eligible public expenditure for the transition regions other than those referred to in the previous indent] ;

- [50 - 55]% of the eligible public expenditure in the other regions.

- [[75]% for operations contributing to the objectives of environment and climate change mitigation and adaptation.]

- amounts transferred from pillar I to pillar II referred to in paragraph 45 as additional support under rural development will be co-financed according the general co-financing rates

  OR

  [100] % for amounts transferred from pillar I to pillar II referred to in 9 as additional support under rural development.

The minimum EAFRD contribution rate will be 20%. Other maximum EAFRD contribution rates to specific measures will be set in the Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)].

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51. Financing under Heading 2 will also support the Common Fisheries Policy and Integrated Maritime Policies, in particular through the European Maritime and Fisheries Fund and an envelope for the international dimension of the CFP as well as activities in the fields of climate and environment through the Programme for the Environment and Climate Action (LIFE).

<u>**PROVISIONS RELEVANT FOR THE ERDF, THE ESF, THE CF, THE EAFRD AND THE EMFF**</u>

[Place in the negotiation box to be decided.]

<u>The Common Strategic Framework</u>

52. The structural and cohesion funds will be brought together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) under a the <u>Common Strategic Framework</u> - in order to maximise their effectiveness and optimise synergies. This will involve defining a list of thematic objectives in line with the Europe 2020 Strategy.

<u>Macro-economic conditionality</u>

53. Establishing a closer link between cohesion policy and the economic governance of the Union will ensure that the effectiveness of expenditure under the Common Strategic Framework (CSF) Funds is underpinned by sound economic policies and that the CSF Funds can, if necessary, be redirected to addressing the economic problems a country is facing.

54. The Commission may therefore request a Member State to review and propose amendments to its Partnership Contract and the relevant programmes, where this is necessary:

    (a) to support the implementation of a Council recommendation, addressed to the Member State concerned and adopted in accordance with Articles 121(2) and/or 148(4) of the Treaty, or to support the implementation of measures addressed to the Member State concerned and adopted in accordance with Article 136(1) of the Treaty;

    (b) to support the implementation of a Council recommendation addressed to the Member State concerned and adopted in accordance with Article 126(7) of the Treaty;

(c) to support the implementation of a Council recommendation addressed to the Member State concerned and adopted in accordance with Article 7(2) of Regulation (EU) No …/2011 [on the prevention and correction of macroeconomic imbalances], provided that these amendments are deemed necessary to help correct the macroeconomic imbalances; or

(d) to maximise the growth and competitiveness impact of the available CSF Funds pursuant to Article 21(4) of Regulation (EU) No …, if a Member State meets one of the following conditions:

(i) Union financial assistance is made available to it under Council Regulation (EU) No 407/2010;

(ii) medium-term financial assistance is made available to it in accordance with Council Regulation (EC) No 332/2002;

(iii) financial assistance in the form of an ESM loan is made available to it in accordance with the Treaty establishing the European Stability Mechanism.

55. Where, a Member State fails to take effective action in response to the Commission's request, the Commission may adopt a decision suspending all or part of the payments to the programmes concerned.

The Commission shall suspend part or all of the payments and commitments for the programmes concerned where:

(a) the Council decides that the Member State does not comply with the specific measures set out by the Council in accordance with Article 136(1) of the Treaty;

(b) the Council decides in accordance with Article 126(8) or Article 126(11) of the Treaty that the Member State concerned has not taken effective action to correct its excessive deficit;

(c) the Council concludes in accordance with Article 8(3) of Regulation (EU) No […]/2011 [on the prevention and correction of macroeconomic imbalances] that, on two successive instances, the Member State has not submitted a sufficient corrective action plan or the Council adopts a decision declaring non-compliance in accordance with Article 10(4) of that Regulation;

(d) the Commission concludes that the Member State has not taken measures to implement the adjustment programme referred to in Council Regulation (EU) No 407/2010 or Council Regulation (EC) No 332/2002 and as a consequence decides not to authorise the disbursement of the financial assistance granted to this Member State; or

(e) the Board of Directors of the European stability mechanism concludes that the conditionality attached to an ESM financial assistance in the form of an ESM loan to the concerned Member State was not met and as a consequence decides not to disburse the stability support granted to it.

56. Decisions on suspensions should be proportionate and effective, taking into account the economic and social circumstances of the Member State concerned, and respects equality of treatment between Member States, in particular with regard to the impact of the suspension on the economy of the Member State concerned.

57. [Other possible supplementary provisions on the scope, extension and impact of macroeconomic conditions.]

58. The suspensions will be lifted and funds be made available again to the Member State concerned as soon as the Member State takes the necessary action.

Performance reserve

59. *'Ex post'* conditionality will strengthen the focus on performance and the attainment of the Europe 2020 objectives.

60. Performance reserve

[It will be based on the achievement of milestones related to targets for financial and outputs indicators linked to Europe 2020 objectives set for programmes priorities. [X%] of the budget of the relevant funds will be set aside and allocated, during a mid-term performance review, to the programme priorities of a given Member State which have met their milestones.]

OR

[At its own initiative, a Member State may decide to establish a national performance reserve for the Investment for growth and jobs goal, consisting of [X]% of its total allocation.]

61. Failure to achieve milestones under the performance framework may lead to the suspension of funds, and a serious underachievement in meeting targets for a programme may give rise to a cancellation of funds.

Pre-financing rates

62. [The pre-financing payment at the start of programmes ensures that Member States have the means to provide support to beneficiaries in the implementation of the programme from the start. The following levels of pre-financing should therefore apply for the ERDF, ESF and CF:

The <u>initial pre-financing</u> amount will be paid in instalments as follows:

(a) in 2014: [2] % of the amount of support from the Funds for the entire programming period to the operational programme;

(b) in 2015: [1] % of the amount of support from the Funds for the entire programming period to the operational programme;

(c) in 2016: [1] % of the amount of support from the Funds for the entire programming period to the operational programme.

If an operational programme is adopted in 2015 or later, the earlier instalments will be paid in the year of adoption.

For the EAFRD and EMFF the initial pre-financing will also be a total of [4]% with the first instalment being [2] % and a maximum of three instalments.]

OR

[There will not be pre-financing for the period 2014-2016.]

Other regulatory provisions

63. All programmes will be submitted to a decommitment procedure established on the basis that amounts linked to a commitment which are not covered by pre-financing or a request for payment within a period of [N+2] will be decommitted. [As regards programmes supported by the ERDF, ESF and CF, the decommitment will not apply to the 2014 budget commitment. For the purpose of the decommitment, one sixth of the 2014 commitment will be added to each of the 2015 to 2020 budget commitments.]