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NOTE

from :	General Secretariat of the Council
To :	Delegations
Subject:	Summary of the meeting of the Committee on Regional Development (REGI) , Tuesday 29 May and Wednesday 30 May 2012

On Tuesday 29 May the meeting was chaired by Ms Danuta HÜBNER (EPP; PL), chair of the Regional Development Committee (REGI).

10. Exchange of views with Johannes Hahn, Commissioner on Regional Policy, on the latest developments in the Cohesion Policy Legislative Package.

Mr HAHN, Commissioner in charge of regional policy, pointed out that this was a very important moment, when the work of the co-legislators on the legislative package was getting up to cruising speed. The Commissioner underlined the importance in the current climate of structural funds as a powerful and important instrument to promote growth. Mr Hahn said that the Commission was open to constructive discussions with all the relevant bodies, and mentioned that recent discussions in the Council were going in the right direction. He said that of course there were questions where opinions varied, for example regarding strategic programming, ex-ante conditionality and simplification measures, but gave an assurance that the Commission was open for discussions. Mr Hahn also underlined the importance of the Common strategic framework as it would define the main investment priorities of each of the funds. According to the Commission proposal this document should be adopted through the procedure for delegated acts.

However, Mr Hahn showed some flexibility in this respect and said that the Commission was willing to discuss the formulation of annexes and adoption by codecision, as called for by MEPs and even the Council, with the European Parliament.

Following the speech by Mr. HAHN there were two rounds of contributions and questions. In the first round the committee coordinators took the floor:

Mr Lambert van NISTELROOIJ (EPP, NL) raised the question of openness and asked why there was a certain reluctance to show what was being done with the funds. He stressed the importance of being open about the benefits of the cohesion policy. Mr van Nistelrooij also asked for detailed information on the issue of unused funds. He was pleased by the firmness of the Commission in sticking to the proposal and was happy that no deals had been made between the Danish Presidency and the Commission. On the Multiannual Financial Framework, he considered it very important that the package as a whole was subject to the codecision procedure, and that the Parliament should not give up its responsibility.

Ms Constanze Angela KREHL (S&D, DE) saw that whilst there were some areas on which positions differed, there were others which might be worth supporting, for example the division of operational programmes into two parts. She found that approach to be more flexible. Ms Krehl was happy to see the willingness of the Commission to show some flexibility on the issue of the Common Strategic Framework (CSF) and the procedure for the adoption of this document. Ms Krehl also highlighted some difficulties, mainly regarding issues such as the performance reserve, macro-economic conditionality, and the multi-annual approach, and she asked for more in-depth discussions. She mentioned the issue of agreements and contracts and asked for clarification on what was needed from the Member States, and the local and regional authorities involved.

Mr. Ivars GODMANIS (ALDE, LV) expressed his concern that there would be 5.5 % less money available for the cohesion policy. He highlighted the issue of the RAL ("reste à liquider"). Mr Godmanis also mentioned his concern that funds to some Member States had been stopped, apparently because of lack of liquidity. Concerning the problematic issue of ex-ante conditionality, mentioned above, Mr Godmanis criticised the Commission for its tough position. He thought that at times of crisis it was dangerous to put in place macro-economic conditionality. Mr Godmans also referred to the performance reserve and the Commission's suggestion of 5 % of national allocations.

He considered that introducing the figure of 5% in the middle of the period would encourage countries to try to avoid that risk. He was in favour of simpler projects in the middle of the financial perspective period in order to deliver results.

The second round of contributions and questions can be regrouped according to several thematic areas:

Macro-economic conditionality. **Mr François ALFONSI** (Greens/EFA, FR) said that the fact that this was often applied at State level did not provide any added efficiency nor did it stop disparities in public finances, and he considered that if implemented stringently it could even make the situation worse.

Urban dimension. **Mr Oldřich VLASÁK** (ECR, CZ) questioned the earmarking of a minimum of 5% of ERDF resources for sustainable urban development and asked what projects should be included in that 5 %.

SMEs and involvement of larger companies. **Mr Oldřich VLASÁK** (ECR, CZ) said that this category should be enlarged in order to include bigger enterprises and companies, given their investment in research and development and the fact that SMEs were often their subcontractors. He suggested that the criterion should rather be how a project would contribute to the cohesion objectives and Europe 2020 Strategy objectives.

Thematic concentration versus flexibility. **Ms Elisabeth SCHROEDTER** (Greens/EFA, DE) said that some instruments were simply too strict for thematic concentration. She thought that the Council had made better proposals and suggested an integrated approach in order to make the funds more easily available. **Mr Jan OLBRYCHT** (EPP, PL) drew attention to the contradiction between thematic concentration on the one hand and flexibility on the other. He called for flexible instruments. More flexibility was needed to let the regions invest the money where it was needed.

Islands and outermost regions. **Mr François ALFONSI** (Greens/EFA; FR) recalled the unique characteristics of islands. He asked the Commission to address this issue. The question of outermost regions was also raised by **Mr Nuno TEIXEIRA** (EPP; PT) in connection with ERDF. He mentioned that the budget for outermost regions and low populated areas was going to be cut by 47 % and asked if this approach was not inconsistent.

Two-way approach in the Council. **Mr Jan OLBRYCHT** (EPP, PL) asked about the relationship between the *friends of cohesion* and *friends of better spending* in the Council. He asked Mr. Hahn which group was gaining support from the Commission. The same comment came from **Mr Victor BOSTINARU** (S&D, RO) who mentioned that in the REGI committee members had managed to come together to defend cohesion policy. He questioned why the Commission was playing a "neutral" role, and stressed that the Council should be persuaded to move from austerity to development because it was the only way to save Europe.

The response of the Commissioner Mr Johannes HAHN to both rounds of comments reflected these main themes:

Unused funds. Mr HAHN explained that all the money had been allocated - there were no additional funds. That was why the Commission had tried to modify operational programmes to shift money from one budget heading to another in order to be more targeted. He said that this offered greater flexibility.

Deals with the Council. Mr HAHN assured Members that the Commission had made no deals with the Council.

Partnership contract. Mr HAHN explained that it was the idea of the Council to call it an "agreement". He said that in general there was little difference, though the Commission's understanding was that "contract" covered everything, and not just partial elements.

RAL ("reste à liquider"). Mr HAHN warned that this constituted a trap, because if the budget was not sufficient, payments were postponed, and thus the RAL was increased, for which the Commission was being criticised. He suggested that this issue should also be clarified vis-à-vis Member States.

Stopping of funds. Mr HAHN said that although used as an argument by many Member States, mainly Ministers of Finance, there was no connection between interruptions or suspensions of funds and liquidity problems. He assured Members that if the Commission was forced to interrupt or suspend payments it was due to deficiencies on the spot and not problems of liquidity.

Performance reserve. As this issue had already been discussed very broadly, Mr HAHN repeated that in his view after a certain period there should be a mid-term review because simply the payments should be paid out. He said he understood Members' concerns on this, but stressed that this was why the partnership contract was needed here. Mr Hahn was convinced that the performance reserve was a necessary incentive for Member States and regions to achieve their goals.

Annexes. Once again Mr HAHN showed flexibility in this respect and said that the Commission was willing to discuss the formulation of annexes with the Parliament.

Macro-economic conditionality. Mr HAHN explained that the current situation had shown the importance of this element. He said that the Commission wanted future regulations to leave open possibilities to deal with particular issues.

Urban dimension. Mr HAHN said that this issue had been raised also in the Council. The figure of 5 % was the minimum threshold for integrating territorial initiatives in terms of financing.

SME and involvement of larger companies. Mr HAHN said that involvement of larger companies had been discussed in relation to research and development, and energy efficiency, which the Commission would support. He said that the talks were now about investments, and though it would be positive to include larger companies, the fact that funds were limited should not be forgotten. The focus should be on key areas, like SMEs and their capacity for innovation.

Thematic concentration versus flexibility. Mr HAHN warned against becoming too ambitious in this area and treating different issues under the heading of flexibility. He reiterated his opposition to efforts to relax the requirements for the thematic concentration of the Structural Funds, since this risked reducing their effectiveness. Mr HAHN stressed that more than ever regional investment policy needed to combine efficiency with flexibility, in order to become an instrument for growth and jobs. He recalled that investing only in infrastructure had proved to be insufficient and mentioned the examples of Spain and Greece, and stressed that diversification was vital. Mr Hahn once again insisted that resources should be concentrated on the themes of green and blue technologies, energy efficiency, and innovation.

Islands and outermost regions and cuts in ERDF. Mr HAHN repeated that the aim was to invest money more efficiently. He said that there were of course different approaches. However regarding the outermost regions he recalled that funds for cooperation had been increased so the cuts were in the end less significant. Mr Hahn highlighted that the main priority was the support of economic activity in the outermost regions.

13. Exchange of views with Nicolai WAMMEN, Minister for European Affairs, on the state of play of the Danish Presidency of the Council of the European Union

On behalf of the Danish Presidency of the European Council, Mr. WAMMEN delivered the speech which is attached in the Annex.

Contributions on behalf of the committee members :

Mr Lambert van NISTELROOIJ (EPP, NL) - complained about lack of cooperation between the Council and the Parliament, in particular REGI committee. He underlined that this was the first time that the Parliament had been a full co-legislator on this subject and called for negotiations to start in earnest. Mr van NISTELROOIJ also asked about progress in the negotiations on MFF in the Council. He called the negotiating box a "black box", and hoped that in June the negotiations regarding the cohesion policy with all its instruments would be more visible.

Ms Constanze Angela KREHL (S&D, DE) - said that from the presentation of Mr Wammen she understood that there had been a shift of thinking in the Council in the direction of promoting growth. She stressed that cohesion policy was vital for growth. Ms Krehl appreciated that there had been a number of interesting developments in the Council, and that the REGI committee could agree with some of the Council's proposals, such as the Common Strategic Framework, the performance reserve, etc. However she did not agree on the code of conduct, ex-ante conditionality and some others points.

Ms Rikka MANNER (ALDE, FI) – was happy to hear from Minister Wammen that he saw the cohesion policy as an investment policy, and hoped that he would maintain this standpoint and defend cohesion policy, including with regard to the budget. She said that cooperation between the Parliament's rapporteurs and the Council could be better. As far as the MFF was concerned, Ms Manner wanted to have further information on work within the Council..

Mr Oldřich VLASÁK (ECR, CZ) – raised the question of flexibility.

Ms Ana MIRANDA (Greens/EFA, ES) – asked about the differences in the Council in terms of different territorial levels existing in the Member States. She asked the Commissioner if the regions should participate at all stages of preparation or should be simple observers (as was the case in certain Member States).

Ms Maria IRIGOYEN PEREZ (S&D, ES) – called on the Presidency not to disappoint citizens and to prepare a road map for the next summit, to be able to create employment and use the crisis also as an opportunity.

Response of Minister WAMMEN regrouped thematically:

Lack of cooperation. Mr WAMMEN said that both sides had been doing their best, but agreed that more could be learnt from this experience. He assured those present that the Danish Presidency was willing to work more on this in the future.

Multiannual Financial Framework. Mr WAMMEN explained the decision-making process. He did not agree with the description of the negotiating box as a "black box". He explained that work on the MFF was taking place and that committee representatives from the Parliament were fully involved in the discussions. He said that the Council expected that the Parliament would at some point formulate its own negotiating position on the MFF, just as the Council needed to formulate one before it could negotiate and prepare for the June European Council. He assured Members that the Presidency was very much aware of the codecision procedure. Minister Wammen also confirmed that the MFF and the Cohesion Fund was intended to help create growth and jobs. He referred briefly to the twin approach of budget consolidation and growth.

Disagreements in the Council and figures for cohesion. Mr WAMMEN said that the Danish Presidency had been prepared to put figures in the negotiating box, but the recommendation of most Member States, the Commission and even the Parliament was that at this stage it would be premature and the Presidency had accepted that opinion. He emphasised that this would give more time to the Parliament to decide where they wanted to allocate the funds. He said that the Danish Presidency would deliver a comprehensive box but without figures and that it would be up to the forthcoming Cyprus Presidency to come up with the figures.

Minister WAMMEN confirmed that there were two main tendencies within the Council – those who believed that the Commission proposal was fine and those who thought it was far too high. He said that we should accept that the negotiating process would not be easy.

Distribution between regions. Mr WAMMEN said that this issue would probably be included in the final deal on the MFF. He confirmed that it was a very sensitive subject and a very careful decision would have to be made, balancing the constraints and requirements of various regions.

Participation of regions. Mr WAMMEN, recalling his times as a former mayor, assured the Members that he was well aware how much the national level could gain from the local and regional level. It would be a mistake to miss out on the local and regional level.

Strategy for growth. Mr WAMMEN confirmed that the Presidency would work on this with close cooperation with President Van Rompuy. He reiterated that the aim of the Presidency was to propose what would become a package to secure growth and jobs. He said that what was needed was fiscal consolidation that went hand-in-hand with growth and job creation.

20. Innovative financial instruments in the context of the next Multiannual Financial Framework

Rapporteur: Ms Mojca Kleva (S&D, SI)

Main committee: BUDG - Mr Eider Gardiazabal Rubial.

This was the last point on the agenda of the REGI meeting on 30 May 2012 which was chaired by **Mr Marcus PIEPER** (EPP, DE), Vice-Chair of the committee.

Because of the delay and lack of time Mr PIEPER asked the rapporteur to be very brief in presenting her draft opinion.

Ms Mojca KLEVA (S&D, SI) welcomed the Commission's proposal to enhance the use of financial instruments in the next programming period . She stressed that at a time of heavy fiscal constraint and reduced lending capacity on the part of the private sector, the increased use of innovative financial instruments could foster public-private partnerships, achieve a multiplier effect with the EU budget, open up alternative sources of finance and guarantee an important financing stream for strategic regional investments.

The rapporteur called for a legal definition of financial instruments to be included in the revised Financial Regulation .She considered that adequate monitoring, reporting and auditing are of the utmost importance in order to ensure that EU resources were being used for the purpose intended.

In the following discussion only **Mr Lambert van NISTELROOIJ** (EPP, NL) took floor. He reminded colleagues that this was not only a matter for the EIB but also that the banks in Member States needed to sign up to the new system. He also mentioned the necessity of adequate institutional capacity in Member States so that this financial regulation could be properly implemented.

Dear colleagues,

First of all, let me start by thanking you Madame Chairman for finding time for me in the Committee's busy agenda for today. Further, I would also like to thank the Committee for the constructive and open dialogue we have had during these last months. The European Parliament plays an important – and I am happy to add – constructive and positive role in the European legislative process. I am absolutely pleased to be here today to give you a state of play on the negotiations in Council only one month before we pass on the relay to our Cypriot friends.

Following my brief introduction, I understand that we have time for an ex-change of views which I am looking forward to.

With your permission, I would like to recall the circumstances of our Presidency. The economic crisis engulfing much of Europe today has made it more important than ever for governments, politicians, and European citizens alike, to agree on a more integrated Europe capable of taking far-reaching decisions quickly. With the good co-operation of all involved, such a Europe has actually emerged right in front of our eyes due to the economic crisis. Within the last six-months alone, 25 EU Member States have signed a fiscal compact with significant implications for fiscal policy and budget discipline in Member States. A permanent European Stability Mechanism to grant financial assistance to Euro zone members is being established. A new, major bail-out has been agreed to help Greece, and in March the 17 euro countries agreed to strengthen the financial firewalls between them. On top of this, key structural reforms are under way at the national level to underpin the steps taken at the European level. And we have initiated a process to put together a comprehensive package of growth-oriented initiatives to be agreed at the European Council in June. This has been the Presidency's approach to tackling the current crisis: We must walk on two legs and combine the necessary fiscal consolidation and discipline with structural reforms and targeted initiatives to spur growth.

These important steps add up to a European Union, where Member States have recognized that the answer to the current challenges facing us is more Europe, not less. Instead of saying that Europe should stay out of domestic politics, Member States have actually spent an enormous amount of effort in the past few months, devising common solutions that get Europe more involved in domestic politics. History might tell us that national governments tend to go down the road of protectionism, nationalism and self-serving beggar-thy-neighbour-policies when the world economy goes into reverse, but this has clearly not happened this time around.

Instead, the economic crisis in combination with the pressure from financial markets has strengthened the solidarity, the discipline and the cohesiveness of the European Union. The crisis has not spawned new European institutions, but it has strengthened European integration in key policy areas, because that proved to be the only adequate answer to the challenges facing Europe right now. And if we dig a bit deeper and ask ourselves, why EU Member States have decided to strengthen the European project rather than allow it to unravel in the pursuit of their own national solutions, I believe that the answer is this: Because EU-countries are so connected and so integrated as they are today, viable alternatives to common solutions and joint actions at the European level simply do not exist. Our economies, our companies and our populations have become so dependent on each other that old-fashioned "go-it-alone"-policies by individual European governments have become obsolete. In contrast, when we act in common as we have done in our response to the crisis, European governments stand a fighting chance to regain the confidence of the markets and make progress.

Dear Colleagues, this is a positive and most encouraging development. As Presidency, we will continue to do our utmost in the remainder of our term to translate this increased capacity to act at the European level into tangible results for the daily life of Europe's citizens. The Danish Presidency remains firmly committed to an agenda focused on stimulating economic growth and promoting job creation in Europe. As you can imagine promoting growth and jobs requires a broad-based effort spanning across many different policy areas. To this regard, I would like to highlight the negotiations on the multi annual financial framework:

I can assure you that the Danish Presidency is working hard to build a consensus in favour of allocating a larger share of the EU-budget toward growth-enhancing areas like research, education, energy efficiency and green technologies. At the same time we are negotiating on the reform of the various sector policies. These reforms aim at achieving as much growth and employment out of every single euro as possible. Please allow me to recall the latest employment figures released four weeks ago by Eurostat. A total of 5 point 5 million young people under the age of 25 are unemployed with a mind-boggling youth unemployment rate in Spain and Greece well above 50 pct. Clearly, these numbers are untenable and they represent an urgent call for the EU and the governments in Member States to pursue more robust employment policies. We must do all we can to avoid the dreadful prospect of a lost generation of young people in Europe. As governments, as politicians, in my book, we are duty-bound to prevent that from happening.

What are the implications of this for the future of the European Cohesion policy?

Four months ago, I had the opportunity to meet with you and discuss the future of the European Cohesion Policy. I left the meeting being confident that Council and Parliament together would be able to lay the foundations for a truly focused and results-oriented policy that would play a central role in creating growth and jobs in these challenging economic circumstances. At the same time recipients requested that the cohesion policy should be simple to implement for beneficiaries and be sufficiently flexible to adapt to changing circumstances. The situation in member states, as well as within member states differs significantly. Further, if we have learned anything from the current crisis, it is that circumstances continue to evolve and, at times, change quite dramatically. Today, I can report that my confidence has been proven right.

Reacting to changed circumstances, I am very pleased that the European Parliament and Council were able to agree to the latest amendments of the current regulation by introducing risk sharing instruments into the cohesion policy. I would like to acknowledge and express my gratitude for the constructive and helpful approach of the European Parliament on this important issue. Together, we were able to complete the legislation process in a very timely manner. We hope that the crisis-hit member states will make good use of this new instrument.

With respect to the future of the European cohesion policy, the Danish Presidency has taken on the task of advancing negotiations on the legislative package as far as possible. With the support of Member States, the General Affairs Council in April reached a partial general approach on six thematic negotiation blocks: programming, ex ante conditionality, management and control, monitoring and evaluation, eligibility, and large projects.

Results-orientation, efficiency, and flexibility are keywords that describe the preliminary agreement on these six blocks. Please, allow me to elaborate a bit on this before I turn to the process leading up to the General Affairs Council at the end of June where we will discuss the legislative package for a second time during the Danish Presidency.

You will clearly see the results-orientation and efficiency in the Council compromise on programming. The text describes how operational programmes are designed. They are constructed around the objectives which a recipient wants to achieve by basing the planning objectives first and the means second. Member States have been given the opportunity to adapt their programmes to changing circumstances without having to resubmit every single detailed change for renewed and lengthy Commission approval causing unnecessary delays in programme implementation.

The results-orientation and efficiency can also be found in the text on management and control. Here, the Managing Authority on the one hand has the duty to ensure that the concrete projects contribute to the achievement of the stated objectives and on the other hand has the duty to avoid unnecessary controls which at times give Cohesion Policy a reputation of being difficult to administer. This is the issue of appropriate audit sampling techniques and proportional control.

Also, you find a combination of results-orientation, efficiency, and flexibility in the compromise we have agreed on in the block of ex ante conditionality. In comparison with the original proposal, we have adjusted the conditionalities so that they are much more sharply targeted on factors directly linked to the effectiveness of Cohesion spending instead of turning it into a mere exercise for checking the compliance with directives which, anyhow, are subject to the infringement procedure.

The same elements are also to be found in the compromise on the block on major projects. Here, member states have agreed on upstream quality checks of the projects – in most cases by means of the EIB JASPERS initiative – as an attractive value added alternative to the technical desk checks downstream by the Commission. The upstream quality control should allow for early adjustments in the planning and assure a timely implementation of the projects. Further, the involvement of the EIB enables member states to draw on the extensive knowledge and experience of the EIB.

The Commission's push for an increased use of simplified costs has been supported by Council. This also applies to the reinforcement of monitoring and evaluation. Again, one sees the combination of results-orientation, efficiency, and simplification at work.

It is my assessment that with these elements of the General Affairs Council in April we have laid a solid foundation for a simpler, more focused, and results-oriented Cohesion Policy in the future. Hence, we ask for Parliament's positive consideration of these elements.

Let me make it quite clear, we do not stop here. Our Presidency is not quite over yet. Our sleeves are still rolled up, and will continue to be so until the end of June.

Looking forward to the General Affairs Council in June, we have started the negotiations on financial instruments, revenue-generating operations, and thematic concentration. Further, we will also have to return to the question of country specific recommendations with respect to programming. Let me take issues in turn:

Firstly, financial instruments. They are important, particularly in an era of national budgetary constraints and increased strains in the financial sector. Ideally, they enable member states to leverage cohesion resources further, and to attract additional counterpart resources from private investors; all with a view to creating growth and jobs. This is especially important under the current circumstances of financial crisis.

We are currently negotiating on amendments of the excellent proposal of the Commission to enable the cohesion policy to promote recognised European priorities such as the availability of venture capital for innovative small and medium sized enterprises. We are making good progress and hope for Parliament's collaboration in this respect as well.

Secondly, regarding revenue generating operations: All practitioners know that the current regulation is difficult to apply. Based on the good Commission proposal, we are looking into the possibilities for further simplification by promoting the use of flat rates instead of complicated formulas for deducting net revenue. This will not only be a simplification, but it will also increase the results-orientation and efficiency of the policy. Getting the rules right from the beginning will incentivise the generation of revenue and allow member states to leverage cohesion money longer for the benefit of growth and jobs in the real economy. In this context, we also would like to facilitate public-private partnerships as a mode of delivery. Again, public private partnerships are an obvious way of stretching the public money longer by involving the private sector in the delivery of the cohesion policy. For this reason, it is important that the new rules be at least neutral with respect to public private partnerships and do not contain additional demands on public private partnerships.

Thirdly, thematic concentration is a central element in the proposal for the new regulations. Everybody agrees with the need to achieve critical mass, avoid scattering effects, and spend Cohesion money on strategic issues of immediate importance for competitiveness, growth, and jobs in tomorrow's greener economy. Negotiations are ongoing based on the proposal of the Commission to focus expenditure on innovation, small and medium sized enterprises, and mitigation of climate change. The challenge will be to provide adaptability and flexibility where needed – without diluting the regulation. This is the guiding principle. In this respect as well, we count on the Parliament's foresight and collaboration.

In April opinions in the Council differed with the respect to use of country specific recommendations or the national reform programmes as the basis for the partnership agreements. We will look into possible solutions of this question.

I am happy to report that the negotiations in the Council have been characterised by a common desire to make the rules for the next programming period stronger and more efficient in the interests of the real economy. In the framework of the trio, we have worked very closely together with our Polish predecessors and our Cypriot successors. While I would like to re-peat my admiration for the hard work and impressive results of the Polish Presidency – we could not have wished for better predecessors – I am very confident that the incoming Cypriot Presidency will successfully build on the foundations laid during the last year. Also I would like to express my profound gratitude for the good and trustful cooperation between the European Parliament and our Presidency on a wide range of policies, including the cohesion policy. Last, but not least, I have to praise the Commission for our close and successful cooperation during the Danish Presidency. The helpful advice and constructive attitude in finding viable compromises has highly appreciated by us.

I would like to thank you very much for your attention and avail myself for your questions and comments.