

# **Economic and Financial Affairs, and International Trade (Sub-Committee A)**

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## 2009 EC BUDGET

### **Letter from Ian Pearson MP, Economic Secretary, HM Treasury, to the Chairman**

On 21 November 2008, I represented the UK at the Budget Economic and Financial Affairs Council (ECOFIN). I am pleased to update you on the progress made at Budget ECOFIN at which the Council of Ministers formally agreed its second reading package on the 2009 Draft Budget (DB) of the European Communities and, following a conciliation session with a European Parliament (EP) delegation, reached agreement with the EP on elements of the final 2009 budget to be adopted.

#### COUNCIL'S SECOND READING OF THE 2009 EC DRAFT BUDGET

Council's second reading package was adopted by the Council by qualified majority with all Member States voting in favour. Council's agreed second reading position was based on a package put together by the French Presidency (and supported by the UK) following discussions in Council Budget Committee.

The Presidency's package included total commitments of €133.02 billion (£119.43 billion<sup>1</sup>). This represented a €3.01 billion (£2.70 billion) reduction relative to levels of commitments agreed in the European Parliament's (EP's) first reading and left a margin of €4.02 billion (£3.61 billion) under the Financial Framework (FF) ceilings. The presidency's package contained payment levels of €114.36 billion (£102.68 billion) representing 0.88% of EU GNI, a €10.12 billion (£9.09 billion) reduction relative to the EP's first reading.

The Council's Second Reading package, to a large extent reverted back to the Council's first reading position, apart from:

- Heading 2 (Preservation and Management of Natural Resources) – a reduction of €1.35 billion (£1.22 billion) and €1.24 billion (£1.11 billion) in respective commitments and payments, reflecting budgetary adjustments contained within Amending Letter 2 and a €180 million (£162 million)

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<sup>1</sup> This and all further exchange rates in this letter are provided at the exchange rate at 31 January 2009, £1 = 1.1138 Euro.

reduction in both commitments and payments to the budget line for the Accounting clearance of previous years' accounts (05 07 01 06)<sup>2</sup>;

- An increase of €179 million (£161 million) in commitments and €180 million (£162 million) in payments for Palestine and Kosovo within Heading 4 (EU as a Global Partner), as proposed in Amending Letter 1; and
- A €0.9 million (£0.8 million) reduction to both commitments and payments within Heading 5 (Administration) to reflect amendments to the European Parliament budget, notified by the European Parliament.

Full details of the Council's Second Reading are summarised in the tables in the Annex.

The Council also adopted two statements in its minutes, noting that: the agreement to increases for deprived persons and to the removal of the budget line for school fruit both contained in Amending letter 2, would not prejudice the outcome of the examination of the legal basis under discussion.

#### AGREEMENT REACHED BETWEEN COUNCIL AND EUROPEAN PARLIAMENT

Before proceeding with the second reading of the DB, the Council held its customary conciliation meeting with an EP delegation. During the course of this conciliation, it became apparent that no agreement would be reached on the 2009 EC Budget without also reaching agreement on the financing of the proposed €1.00 billion (£898 million) Facility for Rapid Response to Soaring Food Prices in Developing Countries (hereafter the "Food Facility")<sup>3</sup>.

The Commission's initial Food Facility proposal included a financing solution with the use of unspent margins for commitments under the 2008 and 2009 FF ceilings for Heading 2, with commitments of €750 million (£673 million) in 2008 and €250 million (£225 million) in 2009, to be paid out over 2009 (€900 million, £808 million) and 2010 (€100 million, £90 million).

Following opposition to this financing method from the UK and other Member States and after lengthy negotiation between the EP, the Council, and the Commission, agreement was reached on a joint-statement setting out an alternative financing solution for the Food Facility, with the following features:

- The redeployment of €240 million (£216 million) in commitments from within Heading 4 (EU as a Global Partner), with €70 million in 2009;
- €100 million (£90 million) to be met from existing resources in the Emergency Aid Reserve (EAR) over 2008 and 2009;
- €420 million (£377 million) from the mobilisation of the Flexibility Instrument; and
- €240 million (£216 million) from a time-limited increase to the 2008 allocation to the EAR, following political agreement on an amendment to the Inter-Institutional Agreement of 17 May 2006 on budgetary discipline and sound financial management (hereafter: the "IIA"), with affirmation that this revision is a selective amendment and will in no way set a precedent.

In addition, to agreement on this joint statement, the Council and EP also reached agreement on five other statements. These concerned:

- *The coordination of Community assistance between the Food Facility and the European Development Fund (EDF)*, with declaration that, when implementing the Food Facility special attention should be paid to the coordination of aid originating from the EC Budget and from the EDF to maximise the synergy and results;
- *Improving the visibility of the EU's external assistance*, with a call on the Commission to present together with its 2010 Preliminary Draft Budget (PDB) a report with a list of initiatives taken to improve the visibility of EU external aid, without compromising its efficiency and effectiveness.
- *The acceleration of the implementation of cohesion policy within the ceilings of the FF*, with invitation for the Commission to complete a number of actions, including presenting a report on the implementation together with the PDB.

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<sup>2</sup> This budget line contains European Agricultural Guarantee Fund (EAGF) expenditure recovered from Member states.

<sup>3</sup> Proposal for a Regulation of the European Parliament and of the Council establishing a facility for rapid response to soaring food prices in developing countries (COM(2008) 450/5)

- *Agreement on creation of an Interinstitutional Working Group on Agencies*, with a request for the first meeting to take place as soon as possible;
- *Payments*, with a traditional request that Commission submit an amending budget if appropriations are insufficient to cover expenditure.

In addition, the European Parliament, the Council and the Commission also reached broad agreement on key elements of the 2009 EC Budget:

- *Total payments* of €116.10 billion (£104.23 billion), corresponding to approximately 0.89% EU GNI, €648 million (£582 million) below the level originally proposed by the Commission in its PDB;
- *Acceptance of elements of Amending Letter 2*, including budgetary adjustments (largely reductions to Agricultural spending) to Heading 2, but with the proposed budget line relating to the programme to promote the consumption of fruit at school removed (pending adoption of a legal base) and the revision of the financing arrangements for the Food Facility, as set-out in the joint statement (outlined above); and
- *Acceptance of Amending Letter 3* as proposed, to provide funding for the reflection groups as set up by the European Council on 14 December 2007.

#### THE EUROPEAN PARLIAMENT'S SECOND READING AND THE ADOPTION OF THE 2009 EC BUDGET

The European Parliament's second reading of the 2009 EC Budget and its formal adoption, which took place in the plenary session of 18 December, mark the end of the 2009 budget procedure.

While the agreement of 21 November set the overall totals for commitment and payment appropriations, and the Council's second reading determined the final level of expenditure for compulsory (mainly agricultural) expenditure, the EP, at its plenary session on 18 December, had the final say on setting appropriations for non-compulsory expenditure.

An overview of the EP's Second Reading (adopted budget) for the 2009 EC Budget are contained in the tables in the Annex.

- *Under Heading 1a (Competitiveness for growth and employment)*, commitments were set at €11.77 billion (£10.57 billion), €157 million (£141 million) higher than Council's second reading, leaving a €3.0 million (£2.7 million) margin under the FF ceiling for commitments. Payments were set at €11.02 billion (£9.90 billion), €1.24 billion (£1.09 billion) higher than Council's second reading, though some €4.03 billion (£3.62 billion) lower than the EP's first reading.

In comparison to 2008 adopted budget<sup>4</sup> payment levels, the sub-heading as a whole were increased by €1.25 billion (£1.12 billion), or 12.8%. Relative to the 2008 adopted budget, the most significant increases in payments were in the following budget areas:

- Seventh Research framework programme – a €732 million (£657 million), or 10.6%, increase;
- Galileo – a €460 million (£413 million), or 153.7%, increase in line with financial programming for Galileo being supported from the EC budget; and
- Transport and Energy Networks (TENs) – a €138 million (£124 million), or 19.4%, increase.

There were also decreases in payment appropriations relative to the levels in the adopted 2008 budget in some areas, including:

- Nuclear Decommissioning – a €40 million (£36 million), or 26.7%, decrease; and
  - Other actions and programmes (relating to Energy and Transport) – a €23 million (£21 million), or 29.2%, decrease.
- *Under Heading 1b (Cohesion for growth and employment)*, commitments were set at €48.43 billion (£43.48 billion), €13 million (£12 million) higher than Council's second reading, leaving a margin of €1 million (£1 million)

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<sup>4</sup> 2008 Adopted Budget figures used here and in further references in this letter exclude all amending budgets.

under the FF ceiling for commitments. Payments were set at €34.98 billion, €311 million (£279 million) higher than Council's second reading, though some €4.03 billion (3.62 billion) lower than the EP's first reading.

In comparison to 2008 adopted budget payment levels, the sub-heading as a whole received a reduction of €5.68 billion (£5.01 billion) or 13.8%. Relative to payment levels in the 2008 adopted budget, the key changes were as follows:

- Structural Funds – a €6.44 billion (£5.78 billion) or 19.0% decrease, with a €5.05 billion (£4.53 billion) or 28.7% reduction decrease in the Convergence objective (relating to Regional Policy);
- Cohesion Fund – a €567 million (£509 million), or 8.4%, increase.

- *Under Heading 2 (Preservation and Management of Natural resources)*, commitments were set at €56.12 billion (£50.39 billion), €333 million (£299 million) higher than Council's second reading, leaving a margin of €3.52 billion (£3.16 billion) under the relevant FF ceiling. Payments were set at €52.57 billion (£47.20 billion), €535 million (£480 million) lower than Council's second reading and some €4.10 billion (£3.68 billion) lower than the EP's first reading.

In comparison to 2008 adopted budget payment levels, the sub-heading as a whole received a reduction of €611.2 million (£548.8 million) or 1.1%. Relative to the 2008 adopted budget, the most significant reductions in payments were in the following budget areas:

- Rural development – a €1.15 billion (£1.03 billion) or 10.1% decrease; and
- Fisheries governance and international agreements – a €29 million (£25 million) or 9.5% decrease.

There are also increases in payment appropriation levels relative to the 2008 budget, most notably a €192 million (£172.7 million) or 124.6% for the Life+ (Environment) programme.

- *Under Heading 3a (Freedom, security and justice)*, commitments were set at €864 million (£776 million), €31 million (£28 million) higher than Council's second reading, leaving a margin of €8 million (£7 million) under the FF ceiling for commitments. Payments were set at €617 million (£554 million), €91 million (£82 million) higher than Council's second reading, though €47 million (£42 million) lower than the EP's first reading.

In comparison to 2008 adopted budget payment levels, the sub-heading as a whole received an increase of €84 million (£76 million) or 15.8%. Relative to the 2008 adopted budget, the most significant increases in payments were in the following budget areas:

- Solidarity and management of migration flows - a €48 million (£43 million) or 19.5% increase; and
- Security and safeguarding liberties – a €17 million (£15 million) or 32.6% increase.

There was also a €7 million (£6 million) reduction in payment appropriation levels relative to the 2008 adopted budget in the area of Fundamental Rights and Justice.

- *Under Heading 3b (Citizenship)*, the EP set commitment appropriations at €651 million (£584 million), €36 million (£33 million) higher than Council's second reading, leaving a margin of €37 thousand (£33.2 thousand) under the relevant FF ceiling. Payments were set at €679 million (£610 million), €44 million (£40 million) higher than Council's second reading, though €21 million (£19 million) lower than the EP's first reading.

In comparison to 2008 adopted budget payment levels, the sub-heading as a whole received a reduction of €29 million (£26 million) or 4.1%, although this does not account for potential future mobilisation of the EU

Solidarity Fund, which, subject to Budgetary Authority agreement, may increase overall payments under this sub-heading. Relative to the 2008 adopted budget, the most significant reductions in payments were in the following budget areas:

- Other actions and programmes (relating to Enlargement) – a €49 million (£44 million) or 49.5% decrease;
- Communication actions – a €9 million (£8 million) or 10.7% decrease; and
- Culture 2007 programme – a €8 million (£7 million) or 15.0% decrease.

There were increases in payments relative to the adopted 2008 budget in certain areas, the largest of which was a €19 million (£17 million) or 18.3% increase in payments for Decentralised agencies.

- *Under Heading 4 (The EU as a Global Partner)*, commitments were set at €8.32 billion (£7.28 billion), including the Emergency Aid Reserve (EAR). This was €111 million (£99 million) higher than Council's second reading. No margin was left under the relevant FF ceiling, which was surpassed by an additional €420 million (£377 million) for the financing of the Food Facility. These were to be met from the Flexibility Instrument (€420 million, £377 million).

In comparison to 2008 adopted budget payment levels, the heading as a whole received an increase of €211 million (£190 million) or 2.6%. Relative to the 2008 adopted budget, the most significant increases in payments were in the following budget areas:

- Other actions and programmes (relating to Development and Relations with ACP States) – a €471 million or 550.8% increase;
- EC guarantees for lending operations – a €337 million (£302 million) increase from p.m line; and
- European Neighbourhood and Partnership Instrument – a €153 million (£138 million) or 12.8% increase.

There were also significant reductions in payment appropriation levels relative to the adopted 2008 budget in certain areas, in particular a €629 million (£565 million) or 21.5% reduction to the Instrument for Pre-accession.

- *Under Heading 5 (Administration)*, commitments and payments were set at €7.70 billion (£6.91 billion), €149 million (£134 million) higher than Council's second reading and the same level as the EP's first reading. This leaves a margin of €76 (£69 million) under the relevant FF ceiling<sup>5</sup>.

In comparison to 2008 adopted budget payment levels, the heading as a whole received an increase of €416 million (£374 million) or 5.7%.

- The EP made no amendments to *Heading 6 (Compensations)* and appropriations remain at €209 million (£188 million) for both commitment and payment appropriations, unchanged through each stage of the budget negotiations.

#### THE UK'S OBJECTIVES AND THE ADOPTED BUDGET

The Government's objectives in this negotiation were consistent with our approach outlined to your committee in previous correspondence, principally: to reach agreement in as many areas as possible in a way that maintains budget discipline and sound financial management; to oppose the inclusion of budget lines for which the legal base had not yet been adopted; and to secure an alternative budget-disciplined funding solution for the Food facility.

The formal adoption of the budget marks the end of the negotiations for the 2009 budget. The outcome of the EP's second reading finalising the 2009 EC Budget reflects the agreement reached between

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<sup>5</sup> Note: the margin for Heading 5 incorporates an additional €78 million for staff contributions to the pension scheme.

Council and the EP at Budget ECOFIN in November, and the best outcome for the Government's objectives in the circumstances.

In respect of the Government's objective to ensure budget discipline, the agreement reached with the EP, set overall payments at €116.10 billion (£104.23 billion) (0.89% EU GNI) – below the level proposed in the Commission's PDB of €116.74 billion (£104.82 billion) (0.90% EU GNI), and well below the level of payment appropriations contained in the 2008 adopted Budget of €120.35 billion (£108.08 billion) (0.96% EU GNI) – bringing the budget more into line with implementation capacity and reducing the potential levels future budgetary underspend.

In line with the Government's stated intention to scrutinise agricultural spending, the Government, working closely with like-minded member states, was able to secure a €1.73 billion or 4.0% reduction in payments for Market related expenditure and direct aids within Heading 2. In line with objections raised by the UK and other Member States the agreement also included the removal the Budget line for school fruit, which had been proposed by the Commission in Amending Letter 2 but the legal base for which had not yet been adopted at the time of the negotiation.

In respect to the secure a budget-disciplined funding solution for the Food facility, the agreement ensured:

- the costs of the Facility would be met from the appropriate portion of the budget, Heading 4 (EU as a Global partner);
- that a significant portion of the costs would be met from redeployment within Heading 4, limiting the extent of IIA revision required to finance the Food Facility; and
- a Joint statement emphasising exceptional nature of the IIA revision, and that this would no way set a precedent for any future revisions.

The adopted budget also meets the Government's objectives on external actions where the UK sought to ensure sufficient resources were allocated for Afghanistan, Palestine, Kosovo and Iraq, co-operation with developing countries in Asia, and spending on the CFSP and Adjustment Support for Sugar Protocol Countries.

Tables summarising the changes between the PDB, Draft Budget, the EP's first reading amendments, Council's second reading and the final adopted budget are set out in Annex 1 to this letter.

#### THE COMMISSION'S EX-ECONOMAT OFF-BUDGET BANK ACCOUNTS

Together with this update on the progress of the 2009 EC Budget negotiations, I am able to provide you a summary of the Commission's Communication (COM(2008) 692) notifying the Council and European Parliament of the closing of the Commission's off-budget bank accounts relating to its staff shops (Economat). Following the outsourcing of the shops' operations and sale of stock to the Delhaize supermarket chain in 2002, the revenue of the fees and sale was placed into two Commission bank accounts. Then following a decision by the Commission Accountant that these accounts should be closed and the account sums totalling €2.7 million (£2.4 million) be transferred to the Community budget, the Commission and European Parliament decided on four projects which would use these funds.

Given the shops' operating surplus had originated from activity involving expenditure by staff and their families, it was decided that the projects should complement existing budget lines supporting staff facilities (and without requiring additional financial or human resources: the integration of children with disabilities into the day-care facilities; the improvement of sports facilities at the staff centre at Overijse; the improvement of leisure facilities in the VM2 Commission building; and the renovation of shared staff fitness facilities at the European Parliament. There are no major policy or financial implications for the UK arising from this Communication.

*11 February 2009*

TABLE 1: SUMMARY OF 2009 PDB, COUNCIL'S 1<sup>ST</sup> READING, EP 1<sup>ST</sup> READING, COUNCIL 2<sup>ND</sup> READING, AND EP 2<sup>ND</sup> READING (ADOPTED BUDGET) - EUR MILLION

Heading	FF Ceiling	2009 PDB		Council 1 <sup>st</sup> Reading (3)		EP's 1 <sup>st</sup> Reading (3)		Council 2 <sup>nd</sup> Reading (4)		Adopted Budget (4)		Diff: 2009 PDB & Adopted Budget	
		CA (1)	PA (2)	CA	PA	CA	PA	CA	PA	CA	PA	CA	PA
<b>1. Sustainable Growth</b>	59,700	60,104	45,199	60,026	44,478	60,192	50,390	60,026	44,478	60,196	46,000	92	800
1a. Competitiveness for Growth and Employment (5)	11,272	11,690	10,285	11,612	9,814	11,769	11,384	11,612	9,814	11,769	11,024	79	739
<i>Margin</i>	-	82	-	160	-	3	-	160	-	3	-	-	-
1b. Cohesion for Growth and Employment	48,428	48,414	34,914	48,414	34,664	48,423	39,006	48,414	34,664	48,427	34,975	13	61
<i>Margin</i>	-	14	-	14	-	5	-	14	-	1	-	-	-
<b>2. Preservation and Management of Natural Resources</b>	59,639	57,526	54,835	57,144	54,338	58,728	56,667	55,789	53,101	56,121	52,566	-1,404	-2,269
<i>Margin</i>	-	2,113	-	2,495	-	911	-	3,850	-	3,518	-	-	-
- of which market related expenditure and direct aids	46,679	42,860	42,814	42,480	42,434	43,739	43,690	41,125	41,082	41,131	41,084	-1,729	-1,730
<b>3. Citizenship, Freedom, Security and Justice</b>	1,523	1,468	1,266	1,447	1,208	1,515	1,364	1,447	1,208	1,515	1,296	47	31
3a. Freedom, Security and Justice	872	839	597	833	573	864	664	833	573	864	617	25	21

**Notes:**

(1) CA = Commitment Appropriations

(2) PA = Payment Appropriations

(3) Due to rounding heading totals for Council's and EP's first readings may not fully match those in previous updates.

(4) Council and European Parliament 2<sup>nd</sup> Readings incorporate: Amending Budgets 1 and 3; Amending Budget 2 excluding initial Food Facility proposals and budget line for school fruit; joint agreement on Food Facility financing.

(5) For consistency totals for sub-heading 1a incorporate the appropriations related to the European Globalisation Adjustment Fund (€500m), however as it sits over and above the margin it is not incorporated in the margin totals shown.

(6) Totals for Heading 4 incorporate €244m in appropriations related to the Emergency Aid Reserve (EAR), however as it sits over and above the margin for Heading 4 it is not incorporated in the margin totals shown.

(7) Totals for Heading 5 incorporates €7.4 million adjustment to the provisional budgets for the institutions incorporated in the PDB, following provision of final draft estimates from the institutions. The margin for Heading 5 incorporates an additional €78 million for staff contributions to the pension scheme.

(8) Due to rounding the sum of the totals may not equal the total

<i>Margin</i>	-	33	-	39	-	8	-	39	-	8	-	-	-
3b. Citizenship	651	629	669	615	635	651	700	615	635	651	679	22	10
<i>Margin</i>	-	22	-	36	-	0	-	36	-	0	-	-	-
<b>4. European Union as a Global Partner (6)</b>	7,440	7,440	7,579	7,554	7,187	7,684	8,157	7,993	7,817	8,104	8,324	663	745
<i>Margin</i>	-	244	-	130	-	70	-	-309	-	-420	-	-	-
<b>5. Administration (7)</b>	7,699	7,655	7,655	7,553	7,553	7,701	7,701	7,552	7,552	7,701	7,701	45	45
<i>Margin</i>	-	122	-	224	-	76	-	225	-	76	-	-	-
<b>6. Compensation</b>	210	209	209	209	209	209	209	209	209	209	209	0	0
<i>Margin</i>	-	1	-	1	-	1	-	1	-	1	-	-	-
<b>TOTAL (8)</b>	<b>136,211</b>	<b>134,402</b>	<b>116,744</b>	<b>133,933</b>	<b>114,972</b>	<b>136,028</b>	<b>124,488</b>	<b>133,016</b>	<b>114,364</b>	<b>133,846</b>	<b>116,096</b>	<b>-556</b>	<b>-648</b>
<i>Margin</i>	-	2,631	-	3,100	-	1,005	-	4,017	-	3,187	-	-	-
<b>Appropriations for payment as % of GNI</b>	1.03%	1.04%	0.90%	1.03%	0.89%	1.05%	0.96%	1.02%	0.88%	1.03%	0.89%	-	-

**Notes:**

(1) CA = Commitment Appropriations

(2) PA = Payment Appropriations

(3) Due to rounding heading totals for Council's and EP's first readings may not fully match those in previous updates.

(4) Council and European Parliament 2<sup>nd</sup> Readings incorporate: Amending Budgets 1 and 3; Amending Budget 2 excluding initial Food Facility proposals and budget line for school fruit; joint agreement on Food Facility financing.

(5) For consistency totals for sub-heading 1a incorporate the appropriations related to the European Globalisation Adjustment Fund (€500m), however as it sits over and above the margin it is not incorporated in the margin totals shown.

(6) Totals for Heading 4 incorporate €244m in appropriations related to the Emergency Aid Reserve (EAR), however as it sits over and above the margin for Heading 4 it is not incorporated in the margin totals shown.

(7) Totals for Heading 5 incorporates €7.4 million adjustment to the provisional budgets for the institutions incorporated in the PDB, following provision of final draft estimates from the institutions. The margin for Heading 5 incorporates an additional €78 million for staff contributions to the pension scheme.

(8) Due to rounding the sum of the totals may not equal the total

TABLE 2: SUMMARY OF 2009 PDB, COUNCIL'S 1<sup>ST</sup> READING, EP 1<sup>ST</sup> READING, COUNCIL 2<sup>ND</sup> READING, AND EP 2<sup>ND</sup> READING (ADOPTED BUDGET) - GBP MILLION (1)

Heading	FF Ceiling	2009 PDB	Council 1 <sup>st</sup> Reading (4)	EP's 1 <sup>st</sup> Reading (4)	Council 2 <sup>nd</sup> Reading (5)	EP's Adopted Budget (5)	Diff: 2009 PDB & Adopted Budget
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		CA (2)	PA (3)	CA	PA	CA	PA	CA	PA	CA	PA	CA	PA
<b>1. Sustainable Growth</b>	53,600	53,963	40,581	53,893	39,934	54,042	45,241	53,893	39,934	54,045	41,300	83	719
1a. Competitiveness for Growth and Employment (6)	10,120	10,496	9,234	10,425	8,811	10,567	10,221	10,425	8,811	10,567	9,898	71	664
Margin	-	74	-	144	-	3	-	144	-	3	-	-	-
1b. Cohesion for Growth and Employment	43,480	43,467	31,347	43,467	31,122	43,475	35,021	43,467	31,122	43,479	31,402	12	55
Margin	-	13	-	13	-	5	-	13	-	1	-	-	-
<b>2. Preservation and Management of Natural Resources</b>	53,546	51,648	49,232	51,305	48,786	52,727	50,877	50,089	47,675	50,387	47,195	-1,261	-2,037
Margin	-	1,897	-	2,240	-	818	0	3,457	-	3,158	-	-	-
- of which market related expenditure and direct aids	41,910	38,481	38,440	38,140	38,099	39,270	39,226	36,923	36,884	36,929	36,886	-1,552	-1,554
<b>3. Citizenship, Freedom, Security and Justice</b>	1,367	1,318	1,136	1,300	1,084	1,360	1,225	1,300	1,084	1,360	1,164	42	28
3a. Freedom, Security and Justice	783	753	536	748	514	776	596	748	514	776	554	22	19
Margin	-	30	-	35	-	7	-	35	-	7	-	-	-
3b. Citizenship	584	564	601	552	570	584	629	552	570	584	610	20	9
Margin	-	20	-	33	-	0	-	33	-	0	-	-	-
<b>4. European Union as a Global Partner (7)</b>	6,680	6,680	6,805	6,782	6,453	6,899	7,324	7,176	7,018	7,276	7,474	596	669
Margin	-	219	-	117	-	63	-	-278	-	-377	-	-	-
<b>5. Administration (8)</b>	6,912	6,873	6,873	6,781	6,781	6,914	6,914	6,780	6,780	6,914	6,914	41	41
Margin	-	109	-	201	-	68	-	202	-	68	-	-	-
<b>6. Compensation</b>	189	188	188	188	188	188	188	188	188	188	188	0	0
Margin	-	-	-	-	-	-	-	-	-	1	-	-	-
<b>TOTAL (9)</b>	<b>122,294</b>	<b>120,670</b>	<b>104,816</b>	<b>120,248</b>	<b>103,225</b>	<b>122,130</b>	<b>111,769</b>	<b>119,426</b>	<b>102,679</b>	<b>120,171</b>	<b>104,234</b>	<b>-499</b>	<b>-582</b>
Margin	-	2,362	-	2,783	-	902	0	3,606	-	2,861	-	-	-
appropriations for payment as % of GNI	1.03%	1.04%	0.90%	1.03%	0.89%	1.05%	0.96%	1.02%	0.88%	1.03%	0.89%	-	-

**Notes:**

(1) Sterling converted from Euros at 31 January 2009 exchange rate, £1 = 1.1138 Euro

(2) CA = Commitment Appropriations

(3) PA = Payment Appropriations

(4) Due to rounding heading totals for Council's and EP's first readings may not fully match those in previous updates.

(5) Council and European Parliament 2<sup>nd</sup> Readings incorporate: Amending Budgets 1 and 3; Amending Budget 2 excluding initial Food Facility proposals and budget line for school fruit; joint agreement on Food Facility financing.

(6) For consistency totals for sub-heading 1a incorporate the appropriations related to the European Globalisation Adjustment Fund (€500m), however as it sits over and above the margin it is not incorporated in the margin totals shown.

(7) Totals for Heading 4 incorporate €244m in appropriations related to the Emergency Aid Reserve (EAR), however as it sits over and above the margin for Heading 4 it is not

incorporated in the margin totals shown.

(8) Totals for Heading 5 incorporates €7.4 million adjustment to the provisional budgets for the institutions incorporated in the PDB, following provision of final draft estimates from the institutions. The Margin for Heading 5 incorporates an additional €78 million for staff contributions to the pension scheme.

(9) Due to rounding the sum of the totals may not equal the total

## AUDITORS ANNUAL REPORT

### **Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 4 December 2008 regarding the European Court of Auditors Annual Report. This was cleared by Sub-Committee A at its meeting of 16 December 2008. The Sub-Committee would like to note its approval of the Consolidated Statement on the use of EU funds in the UK and the fact that this was audited by the National Audit Office. The Sub-Committee would like to express its agreement with both you and the European Court of Auditors that this process must be extended to all Member States to improve the management of EU funds at Member State level.

*17 December 2008*

### CAPITAL REQUIREMENTS REGULATIONS: AMENDMENTS (13713/08)

#### **Letter from Ian Pearson MP, Economic Secretary, HM Treasury, to the Chairman**

In October 2008 I provided an explanatory memorandum regarding amendments to the Capital Requirements Regulations 2006. I undertook to update you on further developments in the negotiations.

On 9 March 2009 the ECON committee of the European Parliament voted on a package of amendments to the proposal by the Commission amending Directives 2006/48/EC and 2006/49/EC.

Based on the text of the amendments voted by the ECON committee and the text of the General Approach agreed in the Council on 2 December 2008, the Presidency commenced on 12 March 2009 formal negotiations with the European Parliament and the European Commission with the view of finding a first reading agreement in the second quarter of 2009.

At the beginning of these negotiations, several political issues were highlighted by the European Parliament as key in finding a compromise between the institutions. These included the following:

- own funds (Recital 3),
- large exposures (Articles 106, 154(9a), 156 (3a)),
- securitisation (Article 122a), and
- supervision (Recital 8a, Article 129(3)).

An acceptable agreement has now been found between the Presidency and the European Parliament on all of the political issues as well as on all outstanding technical points. The compromise package has maintained all of the key changes secured in the General Approach and therefore we are content to proceed.

On 5 March 2009, the European Central Bank adopted its opinion on the Commission proposal 2 and the opinion of the European Economic and Social Committee on the Commission proposal was adopted on 24 March 2009. The Committee of the Regions has decided not to give an opinion. The opinion of the European Parliament is still outstanding.

Therefore, in the absence of any formal indication by the European Parliament that the text agreed on 15 April 2009 is not the basis for a compromise, the Presidency considers that the text circulated to the Member States on that day should be adopted by COREPER on 23 April 2009 as an I-item (no discussion expected) and sent to the European Parliament for final adoption at the May Plenary session.

*22 April 2009*

### COLLECTION OF STATISTICAL INFORMATION BY THE EUROPEAN CENTRAL BANK (2533/98, 14606/08)

#### **Letter from the Chairman to Kevin Brennan MP, Parliamentary Under Secretary, Cabinet Office**

Thank you for your Explanatory Memorandum of 8 December 2008 on the collection of statistical information. This was considered by Sub-Committee A at its meeting of 13 January 2009. Whilst we

agree with your general opinion of the proposal, the Sub-Committee wishes to ask of you the following questions in relation to the document.

First, what type of data is to be collected from the financial sector? Second, why does the Government rate the importance of data confidentiality so highly, when the general movement in the financial sector is currently towards greater transparency? Third, has the Statistics Authority has been consulted over these proposals? Fourth, has a cost-benefit analysis been conducted for these proposals?

The Sub-Committee has decided to hold the document under scrutiny in anticipation of your reply.

*14 January 2009*

#### **Letter from Kevin Brennan MP to the Chairman**

Thank you for your letter of 14 January 2009, concerning Explanatory Memorandum 14606/08, in which you explain the considerations of Sub Committee A at its meeting of 13 January 2009 and raise four specific questions.

FIRST, WHAT TYPE OF DATA IS TO BE COLLECTED FROM THE FINANCIAL SECTOR?

This recommended framework (or enabling) legislation does not, in itself, provide for the collection of data from the financial sector. Rather, it enables data collection, via secondary legislation, from the broad statistical domains falling within the competence of the ECB. These domains are specified at Article 2 of the draft Regulation.

SECOND, WHY DOES THE GOVERNMENT RATE THE IMPORTANCE OF DATA CONFIDENTIALITY SO HIGHLY, WHEN THE GENERAL MOVEMENT IN THE FINANCIAL SECTOR IS CURRENTLY MOVING TOWARDS GREATER TRANSPARENCY?

The Government is in favour of moving towards greater statistical transparency in the financial sector. This would be supported by the improved governance of confidential data exchange between the European System of Central Banks and the European Statistical System. It is, however, essential that this improved transparency is achieved without prejudice to the rights of individuals and businesses regarding the privacy of their data.

THIRD, HAS THE UK STATISTICS AUTHORITY BEEN CONSULTED OVER THESE PROPOSALS?

Yes, the Office for National Statistics, being the Executive Office of the UK Statistics Authority, has been consulted over these proposals.

FOURTH, HAS A COST-BENEFIT ANALYSIS BEEN CONDUCTED FOR THESE PROPOSALS?

No, a cost-benefit analysis has not been conducted for these proposals. As described earlier, the enabling nature of this legislation means that there are no direct costs resulting from its implementation. If there are any substantive proposals to collect additional data via secondary legislation, they will first be subject to cost-benefit analysis. Any such additional data requirement will only be binding on the Euro area countries.

*27 January 2009*

#### **Letter from the Chairman to Kevin Brennan MP**

Thank you for your letter of 27 January 2009 on collection of statistical information by the European Central Bank. This was considered by Sub-Committee A at its meeting of 10 February 2009. The Sub-Committee found the answers to its questions on this proposal very useful and informative.

We have decided to continue to hold the document under scrutiny in anticipation of updates on the state of negotiations on your concerns over data security and the clarity of the wording of the document.

*10 February 2009*

CONTROL OF EXPORTS OF DUAL-USE ITEMS AND TECHNOLOGY (5011/09,  
1334/00)

**Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum on the export of dual-use items and technology dated 19 January 2009. Sub-Committee A considered this document on 3 February 2009 and agreed to hold this proposal under scrutiny.

We would like to know whether any representative from the Department for International Development has scrutinised this document, and if so, do they approve of the aims of the proposal?

*4 February 2009*

**Letter from Ian Pearson MP to the Chairman**

I am replying to your letter of 4 February 2009 to inform your Committee of any involvement of Department for International Development (DFID) in the scrutiny of the Commission proposal to create a number of new Community General Export Authorisations (CGEA).

There has been no representative of DFID involved in the scrutiny of this proposal.

Officials in the Export Control Organisation (ECO) are leading on this issue. In order to reach a UK negotiating position on the Commission proposals they are discussing them with those Departments that have expressed an interest in being consulted at all times on general licences, whether of domestic origin or EU inspired. Those Departments are the Ministry of Defence, Foreign and Commonwealth Office and Communications-Electronics Security Group (CESG). DFID have only asked to be involved if it was considered that a particular proposal for a general licence would have implications for the economy and sustainable development of one or more of the recipient countries. We have spoken to DFID officials who were content that the nature of the Commission proposals would not pose such concerns.

*18 February 2009*

COOPERATION AGREEMENT BETWEEN THE EUROPEAN COMMUNITY AND ITS  
MEMBER STATES, AND THE PRINCIPALITY OF LIECHTENSTEIN TO COMBAT  
FRAUD (17247/08)

**Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 19 January 2009 on the Anti-Fraud Agreement between the EU and Liechtenstein. The Sub-Committee considered this at its meeting of 3 February and decided to clear the document from scrutiny.

The Sub-Committee would like to request an update on the final form of the Agreement on its signing if the content changes on the basis of the concerns raised by several Member States, as highlighted in the Explanatory Memorandum.

*4 February 2009*

CREDIT RATINGS AGENCIES (15661/08)

**Letter from the Chairman to Lord Myners, Financial Services Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 1 December 2008 regarding rules on credit ratings agencies. This was considered by Sub-Committee A at its meeting of 16 December 2008. The Sub-Committee decided to hold the document under scrutiny in conjunction with its current inquiry on EU financial regulation in response to the recent financial turmoil. The Sub-Committee would also like to request updates on negotiations on this document and the UK Impact Assessment upon publication.

*17 December 2008*

### Letter from Lord Myners to the Chairman

Thank you for your letter of 17 December 2008 in which you advised me that Sub-Committee A of the Select Committee on the European Union had decided to hold the Explanatory Memorandum under scrutiny in conjunction with its inquiry on EU financial regulation in response to the recent financial turmoil. You also asked me to provide updates on negotiations and a UK Impact Assessment.

I attach to this letter an update on the Council negotiations to date on the compromise text that the Czech Presidency plans to take to Coreper on 4 March 2009 seeking a general approach of the Council in further negotiations with the European Parliament and the Commission. I also attach an updated financial Impact Assessment to supplement the Commission's original Impact Assessment using revised estimates based on the proposals in the latest compromise text. A purely UK based Impact Assessment has been impractical given the international nature of the main credit rating agencies.

I hope that this information will be sufficient for the Committee to endorse the Government's approach to the negotiations as the Government would wish to support a general approach proposed by the Council Presidency at ECOFIN on 10 March.

4 March 2009

ANNEX A

EM 15661/08: PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON CREDIT RATING AGENCIES - ADDITIONAL INFORMATION

Update on negotiations of the Council as at 3 March 2009

<i>Published Commission Proposal</i>	<i>Latest Council Compromise Text</i>
<p><i>Scope:</i></p> <p>The Regulation would apply to credit ratings used by financial institutions (as defined in other Directives). It permits these institutions to trade in rated securities only if those ratings have been issued by a CRA that has been registered in accordance with the Regulation.</p>	<p>The Regulation shall apply to credit ratings that are intended for use for regulatory purposes by financial institutions, subject to various exceptions.</p> <p>Registration will be a condition for recognition as an External Credit Assessment Institution ("ECAI").</p> <p>Following assessment, the Commission may exempt Central Banks that issue ratings.</p> <p>Prospectuses published in the EU that include credit ratings must also state if those ratings have been issued by an EU-registered CRA.</p>
<p><i>Requirements:</i></p> <p>Registration of a CRA would depend on its compliance with standards and procedures to:</p> <ul style="list-style-type: none"> <li>— avoid conflicts of interest, including those created by the "issuer pays" business model</li> <li>— ensure its employees are appropriately knowledgeable and experienced</li> <li>— make transparent to the public its methodologies, models and assumptions and provide an annual transparency report</li> <li>— disclose, withdraw or update a rating in a timely manner</li> </ul>	<p>Improvements of detail.</p> <p>The requirements in the Regulation are based on the International Committee of Securities Commissions' Code of Conduct (IOSCO Code) enhanced particularly in the areas of analyst rotation, requirement for independent members on supervisory boards, and disclosure of information.</p>
<p><i>EU &amp; Third Countries:</i></p> <p>The proposal requires a CRA to be a legal person established in the Community in order for it to be</p>	<p>No change</p>

<p>able to apply for registration.</p> <p>The scope referred to above would prevent the use within the EU of ratings issued by other than EU-registered CRAs.</p>	<p>EU-registered CRAs may endorse ratings issued by other CRAs of the same group in third countries under certain conditions, including the existence of registration and supervisory regimes in the third country.</p> <p>Recognition that outsourcing is permitted. Clear that CRAs may engage staff from other agencies (including agencies outside the EU) if they are at the disposal or under the control of the CRA.</p>
<p><i>Registration:</i></p> <p>The proposal places responsibility for the decision on the registration of a CRA with the competent authority of a member state – the relevant supervisory body of the member state in which the CRA has its registered office. The proposal also allows for a group of CRAs, either a parent company and its subsidiaries or a number of undertakings linked by control, to apply for one registration. It sets out how competent authorities should act as a college to consult over the registration but that, where there is no unanimity of opinion, individual authorities should make their own decisions for their member states.</p>	<p>The home competent authority may adopt a registration decision for a CRA following the agreement of the college. In the absence of agreement the competent authority shall adopt a refusal decision.</p>
<p><i>Role of Committee of European Securities Regulators (CESR):</i></p> <p>The proposal establishes a role for CESR to advise and coordinate the actions of competent authorities.</p>	<p>No change</p>
<p><i>Penalties:</i></p> <p>The proposal requires member states to establish penalties for infringement of the Regulation</p>	<p>No change</p>
<p><i>Compliance with European Convention on Human Rights (ECHR):</i></p> <p>The proposal was not fully compliant with the ECHR in a number of respects.</p>	<p>The Regulation is probably now in compliance with the ECHR.</p> <p>Decisions of competent authorities can be challenged under national administrative law. The requirement for the college to unanimously approve an application for registration complicates this, and article 6 compliance will depend on administrative law in all the countries involved. Arguably, Member States will need to adapt their administrative law procedures to secure ECHR compliance.</p> <p>Enforcement powers must now be exercised “in conformity with national law”, and this should be sufficient to ensure ECHR compliance.</p> <p>On transfer of personal data, the Regulation could probably be interpreted to ensure sufficient safeguards under Article 8.</p>

ANNEX B

EM 15661/08: PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON CREDIT RATING AGENCIES – ADDITIONAL ESTIMATES OF COSTS OF THE REGULATION

*Basis of estimates*

While negotiations in Council have progressed, the proposed situation that the main credit rating agencies (CRAs) will face following implementation has changed a number of times and they have not, therefore, estimated their costs of implementing the proposed regulation in detail. The situation may change further following negotiations with the European Parliament. Therefore, only broad financial estimates are available as indicators of the scale of the financial impact of the Regulation, if implemented as currently proposed in the Council compromise text.

The Commission provided an original estimate for both one-off and on-going costs. The one-off costs may be understated, for example because of recruitment costs to increase staffing levels for independent board members, but more significant will be the on-going costs of these factors.

The most significant items of cost for CRAs are likely to be:

- Analyst rotation – lead analysts will be rotated every 4 years, other analysts every 5 years, and those taking rating decisions every 7 years
- Independent members of supervisory boards (at least two per board) - responsibility to oversee development of rating methodologies, effectiveness of internal quality control systems, effectiveness of procedures to manage conflicts of interest, compliance and governance processes including an independent review function
- Operation of the required endorsement system and increased communication – allowing EU CRAs to endorse ratings issued by non-EU CRAs of the same global group.
- Legal advice on compliance with the Regulation on an on-going basis and on potential liabilities
- Procedural compliance costs

The most significant items for supervisors are likely to be:

- Facilitator role for one or more CRAs
- College membership role for all large and some other CRAs
- Home competent authority role for resident CRAs
- CESR membership role and policy coordination

#### *Financial Summary*

				European Total	
		Range £m	Median Estimates £m	Range £m	Median Estimates £m
Commission estimates					
On-going administrative costs for all European CRAs					0.02
Additions (broad estimates)					
Supervisory costs					
Facilitator role for one large CRA					
College membership for all large & some other CRAs					
Home competent authority for resident CRAs					
CESR role & policy coordination					
One large competent authority		0.5-1.0	0.75		
Three large competent authorities		1.5-3.0	2.25		
All competent authorities in Europe		3.0-9.0	5.75	3.0-9.0	5.75

CRA costs					
	Analyst rotation				
	Endorsement & communication				
	Independent board members				
	Procedural compliance				
	Legal liability & external legal advice costs				
	One large CRA	0.5-2.0	1.00		
	Three large CRAs	1.5-6.0	3.00		
	All CRAs	2.25-12.0	5.00	2.25-12.0	5.00
Grand Total				5.25-21.0	10.77

*Overall summary*

The financial impact of the regulation in the form of the current compromise text would be to increase the costs of the rating industry in Europe by a number of million pounds per annum, with a broad estimate being £10m per annum.

**CROSS-BORDER PAYMENTS: INFORMATION ON ADDITIONAL PROVISIONS  
(14308/08)**

**Letter from Lord Myners, Financial Services Secretary, HM Treasury to the Chairman**

On 17 December 2008, the Commission proposal to amend the regulation on cross-border payments (Regulation 2560/2001) cleared scrutiny. Member State experts have met to discuss proposed Council amendments to the draft Regulation. The Presidency's compromise text moved to Coreper on 11 February 2009 and is now close to being agreed. In the coming months, Ministers will be invited to agree a general approach to the revision of the Regulation.

Further to the information provided within the Explanatory Memorandum of 30 November 2008 and the subsequent letter of 2 December 2008 on the proposal to amend the Regulation, I would like to inform you that late in the French Presidency, the Commission and the then Presidency, motivated to ensure the success of the SEPA Direct Debit, put forward to additional provisions concerning Direct Debits. In particular, the proposed provisions:

1. set a maximum multilateral interchange (i.e. inter-bank) fee of 8.8 Euro cents for cross-border direct debits for a time-limited period (until 31 October 2012); and
2. require that all banks (and bank accounts) that are "reachable" for (i.e. which offer or accept) direct debits in Euro should also be reachable for SEPA cross-border direct debits.

In broad terms, the proposal to set a maximum interchange fee of 8.8 Euro cents for SEPA direct debits until 2012 involves price regulation and the impacts on competition are unclear. If agreed, it could notably set a precedent for other issues, in particular, that legislation could be used to set prices in financial markets. Notwithstanding these concerns, in practical terms the proposal will have minimal impact on the UK, as non-Euro EU currencies will have the option of opting into the scope of the provision. Therefore, it does not affect Sterling Direct Debits, and only affects the new SEPA Euro cross-border Direct Debits which larger UK banks are expected to offer on a commercial basis. The transitional nature of the provision is also helpful, such that it would not entrench a long-term anti-competitive business model.

On the proposal to mandate that banks be reachable for cross-border SEPA Direct Debits in Euro, in broader terms, as with interchange fees, it sets an unhelpful precedent that legislation should be used to require business to carry out functions that it might not believe to be commercially viable. Notwithstanding this concern, the reachability requirement has no direct impact on UK Sterling Direct Debits.

During the negotiations in response to the additional proposed provision, at the experts level the UK has maintained its scrutiny reserve. However, as the proposals will have a minimal impact on the UK the Government intends to support the proposal as a whole. Assuming that the negotiations on the Regulation between the Council, European Commission and European Parliament reach a positive conclusion in the next few months, and with a view to implementing the Regulation into UK legislation, the Government is publicly consulting on the revision of the Regulation, in particular, the appointment of the most appropriate competent authority to supervise the Regulation and out-of-court redress mechanism, and on the opt-in.

*26 February 2009*

#### CUSTOMS: USE OF INFORMATION TECHNOLOGY (CIS CONVENTION) (17483/09)

##### **Letter from the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury, to the Chairman**

Thank you for your Explanatory Memorandum 17483/08 on the Customs Information Service third pillar database of 9 March 2009. The Sub-Committee considered this at its meeting of 25 March 2009.

We would like to request updates on the progress of negotiations, particularly in those areas where you have raised concerns. This includes the legal base of the proposals, data protection issues and alignment with the first pillar database. We agreed to hold the document under scrutiny in anticipation of these updates.

*25 March 2009*

#### DEPOSIT GUARANTEE SCHEMES: COVERAGE AND PAYOUT TIME FOR DEPOSITORS (14317/08)

##### **Letter from the Chairman to the Lord Myners, Financial Services Secretary, HM Treasury**

Thank you for your letter regarding deposit guarantee schemes dated 24 November 2008<sup>7</sup> which the Sub-Committee took note of at the meeting on 9 December 2008. The Sub-Committee would like to ask which EU Member States already apply the minimum deposit guarantee level of €50,000. The Sub-Committee would also like to inquire whether the merger of Lloyds TSB HBOS will create an institution with a single FSA authorisation or whether the institutions will remain under separate FSA authorisations.

*17 December 2008*

##### **Letter from Lord Myners to the Chairman**

Thank you for your letter of 17 December 2008. The Sub-Committee has asked two questions regarding deposit guarantee schemes.

On the first question, the Sub-Committee ask which Member States already apply the minimum deposit guarantee level of €50,000. As far as I am aware, eight Member States have introduced that level of guarantee. They are Bulgaria, the Czech Republic, Estonia, Finland, Latvia, Poland, Romania and Sweden.

For the sake of completeness, I will add that France has introduced a guarantee of €70,000; and ten Member States have introduced a guarantee of €100,000. They are Belgium, Cyprus, Greece, Hungary, Ireland, Italy (€103,291), Lithuania, the Netherlands, Portugal and Spain. Additionally, as members of the Sub-Committee will know, a number of Member State Governments have introduced temporary unlimited guarantees.

The FSA has consulted on the appropriate limit for the UK, and rule changes and a policy statement will be published later in 2009.

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<sup>7</sup> <http://www.parliament.uk/documents/upload/CwMSubAcompleted.pdf>

On the second question, the Sub-Committee ask whether the merger of Lloyds TSB and HBOS will create an institution with a single FSA authorisation, or whether the institutions will remain under separate FSA authorisations. I am informed that the new 'Lloyds Banking Group' will not operate under a single license, but will maintain the existing banking licences for the foreseeable future.

15 February 2009

## DUAL-USE ITEMS AND TECHNOLOGY: CONTROL OF EXPORTS

### **Letter from Ian Pearson MP, Economic and Business Minister, Department for Business, Enterprise and Regulatory Reform, Chairman**

I am writing to update your Committee on the outcome of negotiations on the above proposals, which were the subject of an Explanatory Memorandum (EM 16989/06) submitted by the Department on 18 January 2007 and cleared by your Committee (Progress of Scrutiny, 29/06/07, Session 06/07). The main changes of interest made since the proposals were cleared by your Committee are:

ARTICLES 2 AND 3 – DEFINITIONS AND CONTROLS OF BROKERING SERVICES AND TRANSIT HAVE BEEN CLARIFIED

Definitions of Brokering services and transit have been refined and the subsequent scope of the controls clarified, including the adoption of national options to extend the scope of brokering and transit controls to non-listed items where the end-use is for WMD purposes;

ARTICLE 6 – CONDITIONS ON THE USE OF THE COMMUNITY GENERAL EXPORT AUTHORISATION (CGEA)

The proposals to list the conditions of use of the CGEA into Article 6 was rejected by Member States. The conditions of use of the CGEA have now been returned to Annex II (CGEA) in the final text;

ARTICLE 15 – REQUIRING THE EXCHANGE OF INFORMATION ON CRIMINAL RECORDS

The UK along with a number of other Member States sought clarification on the intended purpose of this article. Subsequent discussions led to this article being deleted from the final text.

ARTICLE 19 – SETTING UP OF A COMMISSION LED DUAL-USE COMMITTEE

Clarification on the purpose of the Committee was sought by Member States. Subsequent discussions led to this article being deleted from the final text.

ARTICLE 21 – REQUIRING MEMBER STATES TO IMPOSE CRIMINAL PENALTIES

As previously indicated the UK Government had placed a scrutiny reserve on this article as it raised general issues of competence. In view of a number of reserves placed on this article by Member States I am pleased to advise that this provision has been deleted from the final text.

ARTICLE 25 – PROPOSAL TO REPLACE LICENSING OF INTRA COMMUNITY TRANSFER OF ANNEX IV GOODS WITH A PRE-NOTIFICATION SYSTEM

The proposal to replace the current requirements for a licence to transfer of Annex IV goods between Member States with a system of pre-notifications was rejected by Member States and the current requirement for intra community licensing has been restored in the final text.

However, as a compromise Member States agreed to the Commission request to review the scope of Annex IV leading to a possible reduction in the number of items listed.

With the removal of the more controversial elements of the re-cast proposal e.g., articles 15, 19, 21 and 25, and clarification of the scope of the brokering and transit controls, in particular the national option to allow the extension of transit controls to non-listed goods for WMD end use, thereby enabling the UK to maintain its current level of control, the Government can fully support the final text of the re-cast proposals.

Finally, it is understood that the intention of the Council is to table the re-cast proposal for adoption at the end of April 2009.

26 March 2009

ECONOMIC PARTNERSHIP AGREEMENTS: EAST AFRICAN COMMUNITY  
PARTNER (EAC) STATES (13731/08)

**Letter for the Chairman to Gareth Thomas MP, Minister of State, Department for Business,  
Enterprise and Regulatory Reform**

Thank you for your Explanatory Memorandum on Documents 13731/08 and 13732/08 dated 19 November 2008 which Sub-Committee A considered at its meeting on 9 December 2008. The Sub-Committee decided to clear these Documents from scrutiny. The Sub-Committee would like to express agreement with the Government's concerns that sufficient time be allowed for the negotiation of successful Economic Partnership Agreements, a view detailed in our recently published Report 'Developments in EU Trade Policy'.

10 December 2008

ECONOMIC PARTNERSHIP AGREEMENTS: SOUTHERN AFRICAN DEVELOPMENT  
COMMUNITY (13314/08, 13386/08)

**Letter from Gareth Thomas MP, Minister of State, Department for Business, Enterprise and  
Regulatory Reform, to the Chairman**

On the 28 October 2008 your Committee met to consider EMs 13314/08 and 13386/08 which were held under scrutiny until the Committee could be provided with further information. I note from your letter (dated 29 October 2008) your concern about the impact of the agreement on intra-regional trade as well as your request for the views of regional governments. I am now in a position to give you the following update:

REGIONAL INTEGRATION ISSUES – BORDER ADMINISTRATION: There are concerns over regional integration as South Africa is not party to the interim EPA (IEPA). The most pressing of these concerns relates to the mis-match in tariffs between the SADC states and SACU (South African Customs Union). The main challenge to maintaining coherent regional trade regimes is to harmonise tariffs between South Africa and other countries in SADC. The Commission has presented South Africa with a range of options that would enable this and dialogue is ongoing.

REGIONAL INTEGRATION ISSUES – CONTENT: EPA rules on sourcing of materials mean that inputs from South Africa which fall under the exclusion list, cannot be used in goods which are exported to the EU from SADC. The Commission have informed us that these items are not indefinitely excluded. However, our understanding from regional governments is that there is not yet clarity on dates and how future sourcing of inputs from South Africa will be managed. We are monitoring the situation closely and will, if necessary, push for greater flexibility from the Commission.

COUNTRY GOVERNMENT VIEWS: Angola, South Africa and Namibia were the only governments in the region to express opposition to the terms of the interim EPA. Botswana, Lesotho and Swaziland have been generally supportive of the Agreement, but they have expressed concerns about the impact of the Interim EPA on regional integration.

Whilst Namibia has signalled its intention to sign they have also raised concerns, some of which echo those of South Africa. We have received recent updates from the Commission that progress has been made on the most contentious issues. On balance, it appears that Namibia is likely to sign but will do so with the expectation that their concerns be addressed in the move towards a regional EPA.

Engagement with South Africa is ongoing, however given current domestic pressures in South Africa, progress has been slow. We continue to track progress on the various negotiations and do all we can to encourage both the Commission and key negotiating partners to reach agreement on outstanding issues.

FUTURE REGIONAL ENGAGEMENT: The Trade Commissioner will visit the Southern African region in February to help progress discussions on the regional EPA. She will meet with a range of stakeholders and government representatives. We welcome this move and are aware that it has been positively received by the region.

The Commission has outlined plans to hold a seminar in early 2009 once the Interim EPA has been signed. The aim of this is to promote constructive discussion with countries in the region on difficult or

sensitive issues that are not fully resolved within the Interim EPA but will be seriously considered in the regional agreement.

In summary, the SADC region is complex and contains countries with quite divergent interests. While there are a number of concerns that have not yet been resolved, there are structures in place to work towards their resolution.

*26 January 2009*

#### **Letter from the Chairman to Gareth Thomas MP**

Thank you for your letter dated 26 January 2009 on the South African Development Community Economic Partnership Agreement. Sub-Committee A considered this at its meeting of 24 February 2009 and decided to clear the document from scrutiny.

The Committee would like to request updates on the progress of discussions on the EPA following the visit of the Trade Commissioner to the region, given the issues surrounding the signing of the Agreement.

*25 February 2009*

### **ECONOMIC PARTNERSHIP AGREEMENTS: REVISION OF ACP-EU PARTNERSHIP**

#### **Letter from Gareth Thomas MP, Minister of State, Department for International Development, to the Chairman**

I am writing to inform your Committee of Member States' adoption of the negotiating directives for the European Commission (EC) to use with Africa, Caribbean and Pacific (ACP) states on the second revision of the ACP-EC Partnership Agreement.

The ACP-EC Partnership Agreement was signed in June 2000 for a period of twenty years and is subject to five-year reviews. The first review was completed in 2005. The second review will commence in May this year and must be concluded by February 2010.

The negotiating mandate for the negotiations and the letter from the EC to the ACP outlining Europe's priorities for the negotiations were both adopted by Member States at the General Affairs and External Relations Council on 23 February. From the EU's perspective, the overall aims of the revision will be to ensure that it is fully up to date with the main advances in development policy and to further improve the implementation of the Agreement. Areas to be discussed include regional integration; further harmonisation of European Development Fund (EDF) procedures with those applying to the EC's other development instruments; and the timing of future revisions of the Partnership.

The negotiations will commence in May 2009 and last for ten months. The Commission will act on behalf of the Member States on the basis of the negotiating of the procedures of the EDF in accordance with those directives adopted by the Council and in consultation with the Member States through the ACP Working Group.

Once the negotiations are completed, we expect a Council Decision endorsing acceptance, or otherwise, of the revised Agreement. I will of course submit this Decision for scrutiny in the usual way.

*23 March 2009*

### **ECONOMIC RECOVERY PLAN (16097/08)**

#### **Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 8 December 2008 on the European economic recovery plan. This was considered by Sub-Committee A at its meeting of 13 January 2009. The Sub-Committee would like to ask the following questions regarding the recovery plan.

First, in the third paragraph on page 6 of the Commission document two separate figures for the level of the stimulus are quoted (1.55 and 2% of EU GDP). Please could you clarify which GDP figure is correct? Second, which other Member States have announced a budgetary impulse along the lines of that announced in the Pre-Budget report and how much are these impulses expected to cost. Third, do you expect that the Commission target for budgetary impulses to total 1.5% of EU GDP to be achieved? Which Member States does the Government expect to exceed an impulse of 1.5% of that

Member States' GDP? Fourth, do you believe this budgetary impulse is appropriate for all Member States of the EU alike?

The Sub-Committee will hold the document under scrutiny in anticipation of the receipt of answers to these questions.

*14 January 2009*

#### **Letter from Ian Pearson MP to the Chairman**

Thank you for your letter on 14 January regarding EM 16097/08 regarding the European Commission's European Economic Recovery Plan.

The first pillar of this plan calls for a fiscal stimulus amounting to 1.5% of EU GDP. This is to consist of a budgetary impulse from Member States of around 1.2%, and around 0.3% from EU funding.

At the PBR, the Chancellor announced measures equating to approximately £20bn pounds as a means to support the economy and help businesses and consumers. Other countries have also announced fiscal stimulus packages in line with the Recovery Plan. France announced a package worth 1.3% of GDP in December, and Germany announced a stimulus package in January worth 2% of GDP over the next two years. In addition, Italy, Spain, and Portugal have all announced stimulus packages worth over 1% of GDP respectively.

The 1.5% of GDP is a guideline amount for the EU as a whole. The Recovery Plan rightly states that not all Member States are in the same position, and the exact size and specification of each country's impulse is a matter for Member States to decide. Furthermore, while the Government agrees that it is appropriate to take coordinated fiscal action in response to the economic downturn we firmly believe that it is the right of national governments to make the choices that are best suited to their domestic circumstances.

*29 January 2009*

#### **ECONOMIC RECOVERY PLAN: LISBON STRATEGY STRUCTURAL REFORMS - ANNUAL COUNTRY ASSESSMENTS (5981/09)**

##### **Letter from Angela Eagle MP, Exchequer Secretary to the Treasury, HM Treasury, to the Chairman**

On 17 February I submitted two Explanatory Memoranda (EMs) dated 16 February to Parliament:

- one covering jointly documents COM(2009) 34/2 volume I (a Commission Recommendation for a Council Recommendation on the 2009 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member State's employment policies), and a related unnumbered document (a detailed overview by the Commission of progress made with the implementation of the Lisbon Strategy reforms in Member States in 2008); and
- one covering document COM(2009) 34/2 volume II (implementation of the Lisbon Strategy structural reforms in the context of the European economic recovery plan – a more detailed overview of progress across the EU in the specific macro- and micro-economic as well as the employment areas).

I understand that, although these were sifted to Sub-Committee A on 24 February, the latter was unable to consider the documents at its meeting on 3 March. Although the House of Commons EU scrutiny committee granted clearance on 25 February, I regret that it has not been possible to clear Lords' scrutiny before the Council Recommendation and the annual Joint Employment Report, both covered within these EMs, come up for political agreement and adoption respectively at the Employment and Social Policy Council (EPSCO) on 9 March and the Economic and Financial Affairs Council (ECOFIN) on 10 March.

After careful consideration, and following consideration by my officials and their counterparts in the Department for Work and Pensions, I hope you can agree that, exceptionally, the balance of advantage for the UK lies in not opposing the agreement to or adoption of these documents in Council before Lords' scrutiny is completed.

In the case of the Council Recommendation, as I made clear in my first EM, the Government has consistently supported the use of country-specific recommendations in the framework of the Lisbon

Strategy for growth and jobs. They constitute an instrument that takes appropriate account of national circumstances when the Council makes recommendations for domestic structural reform that is necessary for enhancing the competitiveness and productivity of the economies of the EU Member States. This is especially important during the current economic downturn; maintaining the momentum on structural reform across Europe is crucial for building resilience and responsiveness in the future. As such, the Recommendation is part of a consolidated package of inputs from ECOFIN and EPSCO to the Spring European Council meeting on 19-20 March.

I also stated in my EM that the Government broadly agrees with the substance of the draft Recommendation addressed to the UK. My EM set out how the Government has already committed to taking action in these areas.

In the case of the Joint Employment Report, the Government is similarly keen not to block adoption, as the Report is also part of that consolidated input from the EPSCO to the Spring European Council. These collectively support the UK priorities of supporting the European Economic Recovery Plan, including: the EU-wide focus on skills; on working together to support our wider economies; and ensuring that short term measures remain consistent with long-term Lisbon objectives, to minimise the length of unemployment, contain structural unemployment levels and maintain efforts to help long-term unemployed and other disadvantaged groups in the labour market.

I regret to have to write in this way, but hope that you will recognise that, in this case, it is in the UK's interests not to prevent agreement next week to the issues in question. The Government of course remains committed in principle to the EU scrutiny process.

*6 March 2009*

#### **Letter from the Chairman to Angela Eagle MP**

Thank you for your letter of 6 March 2009 on Explanatory Memorandum 5981/09 on documents COM (2009) 34/2 volumes 1 and 2 regarding the Lisbon Strategy. EU Sub-Committee A has recorded these items as a scrutiny override. However, we acknowledge that you submitted these documents in adequate time for consideration before their agreement on 9 March 2009.

As EU Sub-Committee A did not consider any scrutiny on 3 March 2009, due to its visit to Brussels in the same week, we were unable to consider these documents before their agreement. As we agree with your approach to these documents we are content to accept the need for your agreement to the proposals in Council and the subsequent override of the scrutiny reserve. We thank you for your letter explaining the situation.

*18 March 2009*

### **ELECTRONIC MONEY DIRECTIVE (14201/08)**

#### **Letter from Paul Myners, Financial Services Secretary to the Treasury, HM Treasury**

This is a formal interim response to the points raised in the European Scrutiny Report relating to EM 14201/08 regarding the Electronic Money Directive (EMD). The question raised in the Report related to the Government conclusions on the technical changes it is proposing and the likely outcome on them.

As part of the negotiation process, the Government intends to shortly publish a consultation document, together with an impact assessment, on its negotiating approach relating to certain provisions, for example:

- the method of calculating ongoing capital requirements,
- the waiver criteria,
- the proposed passporting regime and
- the redeemability provisions.

The Government will report back to the Committee on the outcome of the consultation process, and ahead of Ministers being asked to agree on a general approach to the proposed revision. Officials have discussed the proposal with industry representatives and there is general support for the Commission proposal.

On 19 November 2008, John Purvis MEP, the lead rapporteur, published a draft report on the European Parliament's view of the Commission proposal. Member State experts are scheduled to meet on 8

December to discuss proposed Council amendments to the Commission proposal. Further meetings are yet to be scheduled.

I hope you find this helpful.

2 December 2008

#### **Letter from the Chairman to Lord Myners**

Thank you for your letter of 2 December 2008 regarding negotiations on the e-money Directive. This was considered by Sub-Committee A at its meeting of 16 December 2008. The Sub-Committee noted the contents of the letter and will continue to hold the document under scrutiny in anticipation of receipt of the documents referred to.

17 December 2008

#### **Letter from Lord Myners to Lord Roper**

This letter is further to my interim response of 2 December 2008 on the points raised in your letter dated 18 November 2008 relating to EM 14201/08 on the Commission proposal to amend the Electronic Money Directive (“EMD”). On 20 January 2009 the Government launched a consultation on the Commission proposal to amend the EMD and the Government’s proposed approach to the EU level negotiations.<sup>8</sup> An impact assessment on the negotiating options formed an annex to the document. I trust you have received a copy of this document.

The consultation is open for a 12-week period and will close on 14 April 2009. As part of the consultation process my officials have met with a cross-section of interested stakeholders including electronic money (“e-money”) issuing banks, the trade association representing e-money institutions, and end-user representative groups.

In general, industry representatives felt that the Commission proposal was a step in the right direction. In particular, the proposals to:

- reduce the initial capital requirement from €1m in the current EMD to €125k;
- include a new method of calculating ongoing capital; and
- update and relax the waiver criteria (which provide that, in certain cases, institutions need not comply with all the provisions of the Directive, including provisions relating to authorisation);

were believed to promote market access, competition, and a more level playing field between the e-money institutions and banks that issue e-money.

However, industry representatives requested greater clarity on the scope of the proposed Directive (i.e. which activities/products would be affected by the Directive) and the provisions relating to redeemability (in particular, in respect of the amounts that may be redeemed and whether a charge may be imposed to cover the costs of redemption), with respect to the workability of the provisions when compared with existing business models. As part of the negotiating process the Government has been working with stakeholders to ensure the final compromise text sufficiently meets the concerns of the industry in terms of scope and workability, balanced with ensuring appropriate consumer protection.

End-user representative groups recognised that the Commission proposal would promote greater competition and innovation within the e-money market, resulting in a cheaper and a more diverse range of e-money products. The main concerns raised by the groups related to the level of consumer protection in the event of an e-money issuer entering into insolvency, and in the event of an e-money instrument being lost or stolen.

During the negotiations, in addition to seeking appropriate initial and ongoing capital requirements for e-money institutions, the UK has supported the inclusion of provisions relating to the safeguarding of funds held by institutions in exchange for e-money. The current draft text prescribes that funds received in exchange for e-money must be safeguarded (i.e. ring-fenced), so that in the event of the insolvency of an institution those funds would be available for distribution to the holders of the e-money, and would be kept separate from other assets in the insolvency estate, which would be distributed to other creditors.

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<sup>8</sup> [http://www.hm-treasury.gov.uk/consult\\_emd.htm](http://www.hm-treasury.gov.uk/consult_emd.htm)

With regard to a lost or stolen e-money instrument, under current practice, once an e-money issuer is informed that an instrument has been lost or stolen, it may, if the appropriate arrangements were in place, block the instrument. In certain circumstances, the issuer could re-issue the outstanding monies to the user. The Commission proposal does not prevent e-money issuers from continuing this practice.

More generally, it should be noted that e-money issuers will be subject to the conduct of business provisions of the Payment Services Directive (“PSD”). The PSD provisions, which will be applied with modifications specified in the EMD, set out the product information that an e-money issuer must provide to a consumer, including, for example, the terms of redemption. This information is to be made available to ensure that the consumer can make an informed choice as to whether to use the product.

In terms of the negotiating timetable, Member State experts have met to discuss proposed Council amendments to the draft Directive. On 25 March 2009, the text is moved to Coreper and an agreement was reached at Ambassador level. Provided an agreement is reached between the Council, European Parliament and Commission at official level, Ministers might be invited at the May ECOFIN to agree a general approach to the revision of the Directive. To date, at expert level, the UK has maintained its scrutiny reserve, but it would be helpful to have the Committee’s clearance of this dossier from scrutiny in the event that it moves to ECOFIN in May, and in light of stakeholders’ general support for the Commission’s aims in revising the Directive.

During the negotiations the UK has sought to ensure that the outcomes sufficiently meet stakeholder concerns and meet with the Government’s priorities of ensuring that the UK and the European payments market are open, competitive, innovative, and efficient, balanced with ensuring an appropriate and proportionate regulatory regime for e-money issuance and, ensuring appropriate consumer protection.

*2 April 2009*

## EUROPEAN GLOBALISATION ADJUSTMENT FUND (5005/09)

### **Letter from the Chairman to Jonathan Shaw MP, Minister for Disabled People and Minister for the South East, Department for Work and Pensions**

Thank you for your Explanatory Memorandum on the European Globalisation Adjustment Fund dated 23 January. Sub-Committee A considered the document on 3 February 2009 and agreed to hold this proposal under scrutiny.

Sub-Committee A found the position of the Government unclear. We would appreciate further explanation to enable us to understand whether the Government oppose the use of the European Globalisation Adjustment Fund to respond to the current financial crisis and, if this is the case, to provide a more detailed explanation on the position of the Government as set out in paragraph 24 of the Explanatory Memorandum.

*4 February 2009*

### **Letter from Jonathan Shaw MP to the Chairman**

Thank you for your response to my Explanatory Memorandum on the European Globalisation Adjustment Fund. You seek clarity on the Government’s position on using the Fund to respond to the current financial crisis.

The Government does not oppose the use of the Fund as one instrument to respond to the current crisis; however we are clear that any application to the Fund must meet the criteria. The rules clearly state that monies from the Fund must complement and not replace aid given by Member States or companies in relation to large scale redundancies. The Government believes that an increase in the co-financing rate would undermine this important principle. Additionally any increase to the co-finance rate would not benefit redundant workers as it would not increase the overall expenditure in anyone case but only change the level of remuneration to Member States. Moreover, that remittance is payable to state treasuries because it will be discounted from any rebate from surplus EU funds. In the case of net contributors, there would be a cost.

While the Government continues to believe that the criteria could meet the demands of the current crisis without revision, we recognise that these are exceptional times and that a temporary derogation that explicitly allows the Fund to help those who lose their jobs because of the recession will help those Member States whose labour market capacity is not as developed as the UK’s, providing the derogation is time limited and the criteria are tightly drawn.

We continue to keep the Commission's proposals under review in our negotiations as we seek a consensus with other Member States and we will keep the Committees informed of the outcomes.

*22 February 2009*

**Letter from the Chairman to Jonathan Shaw MP**

Thank you for your letter dated 22 February 2009 on the European Globalisation Fund. Sub-Committee A considered this at its meeting of 10 March 2009 and decided to hold the document under scrutiny.

EU Sub-Committee A notes with approval your position that contributions from the EC budget should complement rather than replace Member State funding. However, we feel that the EU should help wherever possible workers adversely affected by the recent financial crisis.

As negotiations are still ongoing, we would like to enquire whether other Member States share the view of the UK Government on the increase to the co-financing rate. We would also like to receive updates on negotiations.

*18 March 2009*

**Letter from Jonathan Shaw MP to the Chairman**

Thank you for your letter of the 18 March. You ask whether other Member States share our view on the co-financing rate and also for an update on the status of negotiations.

Other Member States are in accord with the UK view that the co-financing rate should be maintained at 50%. The status of negotiations is such that I am unable to disclose individual Member States' positions at this time.

Negotiations at Working Party level have now finished without final agreement on the proposal and they will continue at the Committee of Permanent Representatives in April. In addition, the Employment Committee of the European Parliament is due to vote on 31 March on their report on the proposal. The Czech Presidency will then enter into trilogue negotiations with the European Commission and the Parliament. The timetable is fluid at present but the European Commission would like to present an agreement on a revised Fund at the EU Employment Summit of 7 May. That Summit aims to allow for an exchange of experiences on the extent to which economic recovery measures are succeeding in supporting employment.

*6 April 2009*

**EUROPEAN REGIONAL DEVELOPMENT FUND: ENERGY EFFICIENCY AND  
RENEWABLE INVESTMENTS IN HOUSING (17022/08)**

**Letter from the Chairman to Pat McFadden MP, Minister for Employment and Postal Affairs,  
Department for Business, Enterprise and Regulatory Reform**

Thank you for your Explanatory Memorandum of 22 December 2008 on the proposed amendments to the European Regional Development Fund (ERDF). Sub-Committee A considered this document at its meeting of 20 January 2009. We would like to ask whether the decision to extend eligibility to Member States for ERDF contributions to energy efficiency projects is consistent with your stated policy that the Funds should only be available to poorer Member States.

The Sub-Committee decided to clear this document from scrutiny.

*21 January 2009*

**Letter from Pat McFadden MP to the Chairman**

Thank you for your letter dated 21 January informing me that the above proposal was cleared from scrutiny.

The Committee was interested to know whether the Government believe the decision to extend eligibility to Member States for ERDF contributions to energy efficiency is consistent. The Government believes this amendment is not in-consistent with our stance on the future of the Funds; that they should be phased out in the richer Member States. This amendment only applies to the 2007-13 round of Funding and does not increase the percentage of Funding received by the richer Member

States. The amendment expands the potential scope of what existing allocations can be spent on in the Member States that were in the European Union before 1 May 2004.

The proposal set out in my Explanatory Memorandum is still to be considered by the European Parliament prior to being agreed under qualified majority voting in Council in co-decision with the European Parliament. The expectation is that this process will be completed in April. We intend to write to your Committee again when the amendments covered by Council document nos. 16543/08, 16548/08 and 17022/08 have been agreed outlining any changes to the initial proposal.

31 January 2009

## EXCESSIVE DEFICIT IN THE UNITED KINGDOM (11300/08, 11302/08)

### **Letter from Ian Pearson MP, Economic Secretary, HM Treasury, to the Chairman**

I am writing to address the points raised in the letter from Lord Grenfell [21 October 2008]<sup>9</sup>, following on from the meeting of Sub-Committee A on 21 October 2008. The questions raised in the letter relate to the forecasts for the UK budget deficit in 2009-2010 and whether any arrangements have been made to temporarily amend or suspend the rules of the Stability and Growth Pact to reflect the interventions made by several Member States.

The Government published an update of its forecasts for the UK economy in 2009-2010 in the Pre-Budget Report on 24 November 2008, where the forecast for Treaty deficit in 2009-2010 was revised up to 8.1% of GDP. The deficit is then expected to fall to 3.3% of GDP in 2013-14. The fiscal projections imply, as the economy emerges from the downturn, an improvement in the structural (cyclically-adjusted) current balance of over 0.5 per cent of GDP a year from 2010-11.

European economies have all been affected by the unprecedented global economic shocks, and several European Member States are already in recession. Fiscal policy has an important role to play in these exceptional circumstances. The 2005 revision of the Stability and Growth Pact allows better account to be taken of cyclical conditions while strengthening medium and long-term fiscal discipline. Statements by the European Commission and the European Council have reaffirmed that these are "exceptional circumstances" and that this should be reflected in application of the Stability and Growth Pact. The following extract is taken from the European Commission's 26 November publication, "A European Economic Recovery Plan":

*"Extraordinary circumstances combining a financial crisis and a recession justify a co-ordinated budgetary expansion in the EU. It may lead some Member States to breach the 3% GDP deficit reference value. For Member States considered to be in an excessive deficit, corrective action will have to be taken in time frames consistent with the recovery of the economy. This is fully consistent with the procedures of the Stability and Growth Pact which guarantee that the excessive deficit will be corrected in due time, ensuring long-term sustainability of the budgetary positions."*

On 2 December, the ECOFIN Council welcomed in principle the Commission communication of 26 November. It reaffirmed that fiscal policies have an important role to play in stabilising the economy, and that further measures beyond automatic stabilisers are warranted.

The Government's objectives of smoothing the path of the economy in the short term while ensuring sound public finances over the medium term are consistent with these statements.

I hope you find this helpful.

8 December 2008

### **Letter from the Chairman to Ian Pearson MP**

Thank you for your letter of 8 December 2008 on the UK's excessive budget deficit. This was considered by Sub-Committee A at its meeting of 13 January 2009. The Sub-Committee would like to ask the following questions in relation to this document.

What effect will a recession lasting beyond 2010 have upon the UK's budget deficit predictions? Will the Stability and Growth Pact continue to be relevant if economic conditions continue to prevent its full application? Which other Member States received warnings over excessive deficit levels in 2008?

We will continue to hold the document under scrutiny in anticipation of your answers to these questions.

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<sup>9</sup> [http://ec.europa.eu/competition/state\\_aid/legislation/impaired\\_assets.pdf](http://ec.europa.eu/competition/state_aid/legislation/impaired_assets.pdf)

14 January 2009

**Letter from Ian Pearson MP to the Chairman**

Thank you for your letter regarding EM 11300/08 and 11302/08 regarding the UK's budget deficit predictions and the application of the Stability and Growth Pact.

The Chancellor will update the fiscal projections in the upcoming Budget.

The European Council on 11 and 12 December agreed a European Economic Recovery Plan based on an effort equivalent around 1.5% of European Union GDP. At the same time, the Council emphasised that the revised Stability and Growth Pact remains the cornerstone of the EU's budgetary framework, and noted that the Stability and Growth Pact affords the flexibility for all the Recovery Plan measures to be implemented.

On 26 November, the Commission issued a communication entitled "Communication from the Commission to the European Council – a European Economic Recovery Plan". This communication explains that the 2005 revision of the Pact allows better account to be taken of cyclical conditions while strengthening medium and long-term fiscal discipline. It states that: "For Member States considered to be in an excessive deficit, corrective action will have to be taken in time frames consistent with the recovery of the economy. This is fully consistent with the procedures of the Stability and Growth Pact which guarantee that the excessive deficit will be corrected in due time."

At present, Hungary is the only country other than the United Kingdom that is in the excessive deficit procedure. No other country was entered into the excessive deficit procedure during 2008. However, based on the Commission's forecasts from 19 January 2009, twelve Member States are expected to breach the 3% reference value in 2009, including the United Kingdom.

29 January 2009

FINANCIAL CRISIS: EUROPEAN FRAMEWORK FOR ACTION (14938/08)

**Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum 14938/08 dated 19 November 2008 which Sub-Committee A considered at its meeting on 9 December 2008. The Sub-Committee decided to hold this document under scrutiny in conjunction with its forthcoming report regarding EU financial regulation, which will examine in detail the Commission response to the crisis outlined in the Communication.

10 December 2008

FINANCIAL SERVICES, FINANCIAL REPORTING AND AUDITING (5783/09)

**Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 20 February regarding Explanatory Memorandum 5783/09 on the funding of various financial bodies. The Sub-Committee considered this document at its meeting of 10 March 2009.

Sub-Committee A agreed to continue to hold the document under scrutiny in anticipation of updates on the progress of negotiations. We would also like clarification on the intentions for the use of the extra funds proposed for the International Accounting Standards Foundation, which was unclear in the Explanatory Memorandum.

11 March 2009

**Letter from Ian Pearson MP to the Chairman**

I write further to your letter dated 11 March on the above Draft Decision to provide information on the progress of negotiations and would be grateful if the Committee would consider this Draft Decision further in the light of this information.

The Government previously provided the Committee with an Explanatory Memorandum dated 20 February, in which it stated that it supported the provision of funding for the Level 3 Committees of supervisors, and for the International Accounting Standards Committee Foundation (IASCF), Public

Interest Oversight Board (PIOB) and European Financial Reporting Advisory Group (EFRAG) on the condition that the funding came out of a reallocation of the existing Community budget, and did not cause an increase in the overall Community budget.

#### SIGNIFICANT CHANGES FROM THE ORIGINAL COMMISSION PROPOSAL TO CURRENT DRAFT

Recital 2 now contains a reference to the need to converge standards between jurisdictions or develop international standards under a transparent and accountable process making it important that the Community plays a role in the international standard setting process for financial markets, and that the interests of the Community are respected. It then refers to the importance of International Financial Reporting Standards for the European Community since, on adoption into Community law, they are obligatory for listed companies in the EU, and explains that the IASB issues standards and the role of the IASCF, EFRAG and PIOB. The Government believes that this change is acceptable.

Recitals 7 and 8 states that Community funding of the IASCF should be conditional on its fulfilment of the governance requirements laid down by the Community. It stresses the need for the IASCF and EFRAG to accomplish their mission in an transparent and accountable manner, in particular by the creation of a Monitoring Board for the IASCF, and in this regard refers to the conclusions of the G20, the de Larosiere Group, as well as the Commission Communication of 4 March 2009 for the Spring European Council. Recital 8a and Article 2 now state that Community funding of the IASCF and PIOB should continue unless, after the first two years of co-financing, the IASCF and PIOB have not made substantial progress towards ensuring that neutral funding arrangements form a majority of their total funding, including from third-country parties. The Government believes that this change is acceptable.

Article 5 – IASCF, PIOB and EFRAG will receive operating grants. It is still subject to negotiation whether the three Level 3 Committees will be able to receive operating grants, or, as the UK supports, action grants only. The UK does not support the three Level 3 Committees receiving operating grants, which would allow funding of the Committees' general functions.

Article 9.1 – the European Parliament has proposed increasing the overall funding envelope for the proposal from €36.2m (£33.7m) for 2010-2013 to €60m (£55.8m) for 2010-2012. We understand that this additional funding would be likely to go to the three Level 3 Committees. This Article is still being negotiated.

Article 9.2 now requires a report to be prepared by the Commission on the governance reforms of the IASCF (as described in Recitals 7 and 8 above). The Government believes that this change is acceptable.

Article 13 – the Commission will be assisted by a committee in accordance with the regulatory procedure with European Parliament scrutiny. The Government believes that this change is acceptable.

#### PROGRESS OF NEGOTIATIONS

##### *Reallocation of EC Budget*

The UK, supported by other budget disciplinarian Member States, has throughout the negotiations, stated that the funding for the bodies in this proposal should come from a reallocation of the existing EC budget. The Presidency and Commission have advised that it will not be technically possible to pre-empt the outcome of the annual budget round by making the Decision contingent on this condition. However, the Presidency has suggested, and budget disciplinarian Member States (the UK included) have agreed, to a Declaration accompanying the Decision, in which the Council asks the Commission to do its utmost to finance this initiative from re-prioritisation. The drafting of this Declaration is still being negotiated.

##### *IASCF, EFRAG and PIOB*

The EM stated, at paragraph 28, that the Government was as yet unconvinced that the EU proposals would achieve the aim of ensuring stable, diversified, sound and adequate public funding for these bodies. The Commission has in the course of negotiations clarified that the overall aim of its proposal is to ensure that over the long term, the IASCF is funded by a fair contribution from the global jurisdictions, of which the EU is one. This proposal sees the EU leading the way in providing a share of this funding. If this global funding is achieved, then it is likely that contributions to the IASCF budget from other current sources of funding such as individual EU Member States, the "Big 4" accountancy firms and publication income, will no longer be required. The Commission, however, has no power to oblige these bodies to cease their contributions, hence the ambiguity in the Commission's Staff Working Paper referred to in paragraph 31 of the EM. The aim of the Commission's proposal is not to increase the overall budget of the IASCF.

During negotiations the Government was informed by the Commission that their intention was, in relation to EFRAG, that funding should come from the European Commission, private bodies and national standard setters, and in relation to PIOB, from the European Commission and other international standard setters.

Having clarified these issues, the Government is able to support the proposal to fund these bodies as set out in the proposal IASCF €15m (£13.96m), EFRAG €12m (£11.2m), PIOB €1m (£931k), subject to the Declaration on reallocation of the EC budget.

#### *Three Level 3 Committees*

As stated in the EM, the Government supports the original Commission proposal to co-finance the three Level 3 Committees for specific projects to the tune of €8m (£7.45m), and continues to push for this to come from a reallocation of the existing EC budget. We do not support any move to general funding of the committees' activities, as is currently proposed by the European Parliament. This issue, along with the level of financing for the Committees, is still under negotiation.

#### *Additional Commission Staff*

In paragraph 3 of the EM the Government stated that it would ask the Commission to justify its €7.13m (£6.6m) funding of 12 extra staff to manage this budget. The Commission have stated that of these twelve, ten were to be reallocated from within DG Markt, so the increase was only for two people, or €240k (£223k). The requirement for twelve people was because financial monitoring requirements were onerous.

#### TIMETABLE

The Presidency would like this proposal to go to Coreper on 29 April, before being voted at the last European Parliament plenary sitting on 4 May. There is the possibility of a deal on this proposal.

20 April 2009

### FRAUD: MEASURES TO CHANGE THE VAT SYSTEM TO FIGHT FRAUD (6859/08)

#### **Letter from the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury, to the Chairman**

When clearing the above document from scrutiny in April last year, your predecessor drew attention to the Committee's concerns on the impact of VAT carousel fraud on the balance of payments figures. The Committee also requested that the Government provide further updates on this as the data became available.

Before looking at the impact of fraud on balance of payments figures, it is worth noting that in the Pre-Budget Report 2008, HMRC were able to publish updated figures for attempted fraud and the impact on VAT receipts to include the results for year 2007/08. These showed further reductions in both measures. The most recent figures are set out below:

#### ESTIMATES OF MTIC FRAUD (£BN)

	2005-06	2006-07	2007-08
<i>Attempted Fraud</i>			
Upper Bound	6.0	5.0	2.0
Lower Bound	4.0	2.5	0.5
<i>Impact on VAT Receipts</i>			
Upper Bound	4.5	3.5	2.0
Lower Bound	2.5	1.5	0.5

The methodology for compiling these figures has been amended, so for the earlier years these differ from previously published figures. Further commentary on the figures can be found in "Measuring Indirect Tax Gaps – 2008", published by HMRC.

With regard to the Committee's interest in the balance of payments, since May 2003, there have been adjustments to the import figures for the Balance of Payments, Trade in Goods figures to allow for the

impact of missing trade statistics declarations associated with VAT Missing Trader Intra-Community (MTIC) fraud. There has been little development in this area over the past year and the picture remains very much one of lower levels of fraud following the reduction from its peak in 2005/06 as the result of the introduction of effective countermeasures.

The Balance of Payment figures for the 4th Quarter of 2008, published in February this year, show that since April 2008, there has been little change in the value of the MTIC adjustments supplied by the trade statisticians in HMRC, which have consistently been within £0.1bn and £0.3bn per month. These MTIC adjustments are the upward adjustment of the UK Arrivals trade (EU Imports) in goods statistics to account for the missing trade declarations associated with MTIC fraud. They do not reflect the level of fraud and cannot be used as a proxy to estimate the level of attempted fraud or the VAT loss.

While we can be pleased that the levels of fraud have fallen dramatically from their peak and only continue at a much reduced level, we fully expect fraudsters to continue to look for ways of adapting their methods to carry out fraud and evade detection. Therefore, we will maintain our vigilance and continue to take appropriate actions in tackling this serious and persistent threat to revenues.

*20 April 2009*

## FUTURE EU REGIONAL POLICY

### **Letter from the Chairman to Pat McFadden MP, Minister for Employment Relations and Postal Affairs, Department for Business, Enterprise and Regulatory Reform**

Thank you for your letter of 20 November 2008 which Sub-Committee A considered at its meeting on 9 December 2008. The Sub-Committee would like to express its view that the issue of phasing in and out of Regional funding around the boundary of eligibility is very important to those regions affected, as was expressed in the Sub-Committee's recent Report on the subject. Therefore, the Sub-Committee would like to be kept updated on any developments in Commission or Government policy on this matter. The Sub-Committee would also like to take this opportunity to remind you that the House of Lords will be debating their Report in the New Year.

*10 December 2008*

## HOLDING AND MOVEMENT OF ALCOHOL, TOBACCO AND ENERGY PRODUCTS IN DUTY SUSPENSION (6615/08)

### **Letter from Rt Hon Stephen Timms MP, Financial Secretary to the Treasury, HM Treasury, to the Chairman**

Your predecessor wrote to me on 11 November with regard to the above proposal.

I regret that the Committee was not provided with an earlier update on negotiations, thereby avoiding the need for a scrutiny override. Please accept my apologies. However, I hope that you will understand that in this instance the pace with which the negotiations concluded rendered it unavoidable.

I would like to reassure you that the Government attaches the utmost importance to scrutiny procedures. I have taken this opportunity to remind officials working on EU dossiers to ensure that they provide regular updates where the Committee has requested this, even if, at those intermediate stages, not all issues have been resolved.

*26 January 2009*

## MEDIUM-TERM FINANCIAL ASSISTANCE FOR HUNGARY (14949/08)

### **Letter from Ian Pearson MP, Economic Secretary, HM Treasury to the Chairman**

Thank you for your predecessor's letter on EM 14949/08. I address this response to you as the new Chairman of the Select Committee on the European Union.

I appreciate the Committee's acceptance of the use of a scrutiny override in this case. It is essential that in the current economic climate the UK is able to take the necessary initiative to support the EU in these matters, allowing it to act swiftly and decisively to provide support to Member States facing difficulty, preventing contagion and ensuring financial stability.

Hungary has a good track record of timely debt servicing and the programme conditionality provides some safeguards by tying future disbursements of the loan to certain conditions such as an improvement in public finances; reform of fiscal governance; enhanced financial sector regulation and supervision; and other structural reforms. Repayment of the EU loan will not start until the end of 2011, by which time economic and financial conditions in Hungary and elsewhere are expected to have improved.

In the unlikely event of Hungary defaulting on the loan the Commission would table a formal proposal on necessary budgetary adjustments and the Government would update the European Union Select Committees as required.

It would be unwise to comment on the future use of this facility by EU Member States. While we are aware that Latvia has approached the European Commission for support, we do not yet know the details, including the type of assistance sought. We will inform the Select Committee swiftly if and when a support package under the Balance of Payments facility is agreed.

*12 December 2008*

## MEDIUM-TERM FINANCIAL ASSISTANCE FOR LATVIA

### **Letter from Ian Pearson MP, Economic Secretary to the Treasury, HM Treasury, to the Chairman**

I am writing to alert you to a forthcoming vote in Council on a Decision approving the granting of €3.1bn from the EU Medium-Term Balance of Payments Facility to support Latvia.

Full details of the proposal on granting assistance to Latvia are set out in the accompanying unnumbered Explanatory Memorandum. Following Latvia's approach to the European Commission for assistance, negotiations took place in an accelerated time frame, and final agreement is likely to be reached in ECOFIN on 20<sup>th</sup> January. The unfortunate consequence of this is that the Government has been unable to alert Parliament until now to the proposal in sufficient time to accommodate the Parliamentary scrutiny process, which it regrets. However, given the exceptional circumstances and the urgency of providing rapid and effective support to Member States in crisis to prevent wider ramifications, I believe that it would be inappropriate for the UK to stand in the way of the assistance being granted. The UK will therefore wish to vote in favour of this proposal at ECOFIN.

*15 January 2009*

## MEDIUM-TERM FINANCIAL ASSISTANCE FOR ROMANIA (8642/09)

### **Letter from Ian Pearson MP, Economic Secretary, HM Treasury, to the Chairman**

I am writing to alert you to a forthcoming vote in Council on a Decision approving the granting of €5bn from the EU Medium-Term Balance of Payments Facility to Romania and agreement to increase the ceiling on this facility from €25bn to €50bn (alongside other technical and operational amendments).

The accompanying Explanatory Memorandum (COM2009 199 Final) provides full details of the proposal on granting assistance to Romania. Negotiations took place in a very short time frame following Romania's approach to the European Commission for assistance. These proposals and related documents are not published until the details of the EU loan are agreed due to their market sensitive nature and ongoing parallel negotiations with other donors; the Commission's recommendation for assistance was not received until 22 April.

I have further included an additional Explanatory Memorandum (EM 8462/09) that provides full details of the proposed amendments to Regulation (EC) 332/2002. Following agreement at the 19-20 March Spring European Council the Commission brought forward its final proposals following discussion in Brussels at the Economic and Financial Committee on 20-21 April and Financial Counsellors on the 22 April.

The Commission is seeking a decision on these dossiers from ECOFIN on 5 May 2009, where a final agreement to both is likely to be reached. The unfortunate consequence of this tight timescale is that the Government has been unable to alert Parliament until now to the proposals. This has meant there is not sufficient time to accommodate the Parliamentary scrutiny process, which I regret. However, given the exceptional circumstances and the urgency of providing rapid and effective support to Member States in crisis from an appropriately resourced balance of payments facility, I believe that it is right for the

UK to support financial assistance to Romania alongside an increase in the ceiling of the facility. This sends a strong signal that the EU is willing to act swiftly and decisively to support Member States facing difficulty. The UK therefore intends to vote in favour of the proposals at ECOFIN.

*28 April 2009*

## MEDIUM-TERM FINANCIAL ASSISTANCE FOR MEMBER STATES (15105/1/08)

### **Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum 15105/08 dated 19 November 2008 which Sub-Committee A considered at its meeting on 9 December 2008. This item was recorded as an override by the Sub-Committee. The Committee would like to ask, further to its previous questions on this issue, whether economic conditions are imposed on a Member State in order to use this facility, what these conditions are and whether the International Monetary Fund imposes similar conditions when it issues loans? The Committee would also like to ask whether Financial Assistance is always given in conjunction with similar funds from the IMF?

*10 December 2008*

### **Letter from Ian Pearson MP to the Chairman**

Thank you for your letter regarding the recent Explanatory Memorandum 15105/08 on the EU Facility for providing medium term financial assistance for Member States' Balance of Payments.

As previously mentioned, I am pleased that the Committee accepted the use of a scrutiny override. It is very important that in the current economic climate the UK is able to take the necessary initiative to support the EU in these matters, allowing it to act swiftly and decisively to provide support to Member States facing difficulty.

You asked whether loans provided under the EU Medium-Term Balance of Payments Finance Facility, pursuant to regulation (Ee) 332/2002, come with economic policy conditionality attached. This is indeed the case, with conditionality established on a case-by-case basis to stabilising the balance of payments. The EU and IMF endeavour to ensure alignment between conditionality imposed by the EU and conditions that are set out in the course of IMF programming.

Regarding the links to IMF funds, the EU Medium-Term Balance of Payments Finance facility is pursuant to Treaty Article 119, which, among other things, seeks to establish a concerted approach to international financial institutions by EU Member States seeking financing and the Community; and where possible utilise Community support. Therefore, the EU facility is designed to be complementary to any support provided by international financial institutions, but it is possible for it to be enacted as a stand-alone facility.

*19 December 2008*

## MULTI-ANNUAL FINANCIAL FRAMEWORK (17606/1/08)

### **Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 18 December 2008 on the revision of the financial framework. Sub-Committee A considered this document at its meeting of 20 January 2009.

We agree with you in principle that revision of the financial framework is to be avoided where possible and would like to request updates on the attempt to find a solution to the need for extra funding without revision of the framework. The Sub-Committee is interested which other Member States, if any, share your reservations over the proposed revision.

The Sub-Committee would also like to receive further details on the energy and broadband infrastructure plans once these are made available by the Commission.

The Sub-Committee agreed to hold this document under scrutiny.

*21 January 2009*

## Letter from Ian Pearson MP to the Chairman

Thank you for your letter of 21 January following consideration by Sub-Committee A of the abovementioned Commission proposal. I am pleased to update you on the ongoing discussions with other Member States on finding a financing solution for the Commission's European Economic Recovery Plan. I can also take this opportunity to provide you further detail of the latest energy infrastructure plans that have been made available by the Commission.

A number of other Member States, (in particular the Netherlands, Germany, Sweden, and Austria) as well as the UK have expressed concerns with the Commission proposal to revise the Financial Framework. As well as calling on the Commission to consider the scope for the reprioritisation and redeployment of existing resources within both the Competitiveness (Heading 1a) and Agriculture (Heading 2) headings of the EC Budget, the UK and like-minded Member States have expressed concern at the suggested use of the 2008 unallocated budget margin and have stressed that a solution must be found within the existing Financial Framework.

In the light of this, the Commission has revised its original proposal, limiting the overall increase to commitment appropriations under Heading 1a to €3.5bn, but proposing an additional €1.5bn of expenditure for infrastructure projects under Heading 2 to make up the €5bn total. We remain concerned with this revised proposal as it still draws on the 2008 margin to finance the package and will continue to take a proactive part in further discussions with the Commission and other Member States.

I attach a copy of the latest list of energy infrastructure projects published in the provisional Commission energy programme proposal. We are still awaiting details of the broadband projects. The other Government departments with policy responsibility for these projects will supply the relevant explanatory memoranda and information on these proposals to the scrutiny committees in due course.

12 February 2009

ANNEX

### ELIGIBLE PROJECTS

#### A. *Interconnectors*

##### 1. Gas interconnectors

<b>Project</b>	<b>Location of projects supported</b>	<b>Envisaged Community contribution (€million)</b>
Southern Gas Corridor		
NABUCCO <sup>10</sup>	Austria, Hungary, Bulgaria, Germany, Romania	250
ITGI – Poseidon	Italy, Greece	100
Baltic interconnection		
Skanded	Poland, Denmark, Sweden	150
LNG network		
Liquefied Natural Gas terminal at Polish coast at port of Świnoujście	Poland	80
Central and South East Europe		

<sup>10</sup>This support may be channelled alongside European Investment Bank support

Slovakia-Hungary Interconnector (Velky Krtis – Balassaqyarmat)	Slovakia-Hungary	25
Gas transmission system in Slovenia between the Austrian Border to Ljubljana (excluding the section Rogatec-Kidričevo)	Slovenia	40
Interconnection Bulgaria-Greece (Haskovo-Komotini)	Bulgaria, Greece	20
Romania-Hungary gas interconnector	Romania, Hungary	30
Expansion of Gas Storage Capacity in the Czech hub	Czech Republic	25
Infrastructure and equipment to permit west-east gas flow in the event of short term supply disruption	All Member States	20
<b>Mediterranean</b>		
Reinforcement of FR gas network on the Africa-Spain-France axis	France	150
<b>North Sea area</b>		
Germany-Belgium-United Kingdom pipeline	Belgium	35
France-Belgium connection	France, Belgium	100
<b>TOTAL</b>		<b>1025</b>

## 2. Electricity interconnectors

Project	Location of projects supported	Envisaged Community contribution (EUR million)
<i>Baltic interconnection</i>		
Estlink-2	Estonia, Finland	100
Interconnection Sweden- Baltic States, and strengthening of the grid in Baltic States	Sweden, Latvia, Lithuania	175
<i>Central and South East Europe</i>		
Halle/Saale – Schweinfurt	Germany	50
<i>Mediterranean</i>		
Portugal-Spain interconnection reinforcement	Portugal	30
Interconnection France-Spain (Baixas – Sta Llogaia)	France, Spain	150
New 380 kV AC submarine cable between Sicily- Continental Italy (Sorgente – Rizziconi)	Italy	100
<i>North Sea area</i>		
Interconnection Republic of Ireland – Wales	Ireland, UK	100

TOTAL		705
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### 3. Small island projects

Small isolated island initiatives	Cyprus, Malta	<b>20</b>
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#### B. OFFSHORE WIND PROJECTS

Project	Capacity	Location of projects supported	Envisaged Community contribution (EUR million)
<i>1) Grid integration of offshore wind energy</i>			
1.1. Baltic I and II - Kriegers Flak I, II, III  Building on projects under development. Financing aimed at ensuring extra cost for securing a joint interconnection solution.	1.5 GW	Denmark, Sweden, Germany, Poland	150
1.2. North sea grid  Modular development of offshore grid, demonstration of virtual offshore power plant	1 GW	United Kingdom, The Netherlands, Germany, Ireland, Denmark,	150
<i>2) New turbines, structures and components, optimisation of manufacturing capacities</i>			
2.1 Alpha Ventus/Bard Offshore 1  Building on projects presently under development. New generation of 6-7 MW size turbines and innovative structures, situated far from shore (up to 100km) in deeper waters (up to 40 m).	0.5 GW	Germany, Poland	150
2.2 Aberdeen offshore wind farm (European testing centre)  Building on project presently under development -Testing of multi-MW turbines. Development of innovative structures and substructures including optimisation of manufacturing capacities of offshore wind energy production equipment. An increase in size of 100MW can be envisaged.	0.25 GW	UK	40
2.3 Thornton Bank  Building on project presently under development. Learning from the Downvind project (co financed through FP6); Upscaling the Downvind installations turbines (5 MW size) in deep waters ( up to 30 m) with low visual impact (up to 30 km).	90MW	Belgium	10
TOTAL			500

### C. CARBON CAPTURE AND STORAGE PROJECTS

Project Name/ Location		Envisaged Community contribution (EUR million)	Fuel	Capacity	Capture Technique	Storage Concept
Huerth	Germany	250	Coal	450 MW	IGCC	Saline Aquifer
Jaenschwalde			Coal	500 MW	Oxyfuel	Oil/Gas fields
Eemshaven	Netherlands	250	Coal	1200 MW	IGCC	Oil/Gas fields
Rotterdam			Coal	1080 MW	PC	Oil/Gas fields
Rotterdam			Coal	800 MW	PC	Oil/Gas fields
Belchatow	Poland	250	Coal	858 MW	PC	Saline Aquifer
Compostella	Spain (with {Portugal)	250	Coal	500 MW	Oxyfuel	Saline Aquifer
Kingsnorth	UK	250	Coal	800 MW	PC	Oil/Gas fields
Longannet			Coal	3390 MW	PC	Saline Aquifer
Tilbury			Coal	1600 MW	PC	Oil/Gas fields
Hatfield (Yorkshire)			Coal	900 MW	IGCC	Oil/Gas fields
TOTAL 1 250						

#### **Letter from the Chairman to Ian Pearson MP**

Thank you for your Explanatory Memorandum of 18 December 2008 on the revision of the financial framework. Sub-Committee A considered this document at its meeting of 20 January 2009.

We agree with you in principle that revision of the financial framework is to be avoided where possible and would like to request updates on the attempt to find a solution to the need for extra funding without revision of the framework. The Sub-Committee is interested which other Member States, if any, share your reservations over the proposed revision.

The Sub-Committee would also like to receive further details on the energy and broadband infrastructure plans once these are made available by the Commission.

The Sub-Committee agreed to hold this document under scrutiny.

*11 March 2009*

#### **Letter from Ian Pearson MP to the Chairman**

Thank you for your letter of 11 March following consideration by Sub-Committee A of the abovementioned Commission proposal and clearing this document from scrutiny in the Lords. I am pleased to report on the outcome of the European Council and the agreement that was reached on financing the additional €5bn EC Budget contribution to the European Economic Recovery Plan.

The basis for final agreement was a Presidency compromise proposal that set out an alternative financing solution to that originally proposed by the Commission. In order to refine this compromise

and secure a favourable decision, the Government regrettably had to override scrutiny in this instance. The UK was instrumental in arguing for an alternative budget-disciplined financing mechanism for the whole €5bn package which will draw on existing budget resources. Consistent with our long-standing concerns and objectives, the agreement involves no overall increase to the 2007-2013 Financial Framework or use of funds from previous years as originally proposed by the Commission.

The main elements of the agreed package were as follows:

- The overall €5bn reference amount was maintained - €1.02bn would go toward broadband internet and CAP Health Check measures and €3.98bn for energy infrastructure projects;
- The financing of the former would be exclusively from within Heading 2 of the EC Budget (Agriculture and Rural Development), €600m of which would be covered by the existing 2009 Heading 2 budget margin; and
- Financing the energy projects in 2009 would be done by a revision of the Financial Framework ceilings such that an increase of €2bn to the 2009 ceiling of Heading 1a (Competitiveness) would be offset by a decrease of the 2009 ceiling of Heading 2 by the same amount.

At least €2.6bn of the existing 2009 Heading 2 margin has been allocated to finance the recovery plan. The remaining €2.4bn will be secured during the course of the 2010 and 2011 annual budget negotiations.

- Available resources under Heading 2 will be committed to meet the remaining €420m for broadband internet and CAP Health Check measures; and
- To finance the outstanding €1.98bn for energy projects, the remaining margins available under the 2009, 2010 and 2011 budget ceilings will be used.

The UK worked with like-minded Member States to delete any reference in the compromise text to the possibility of increasing the overall Financial Framework ceiling.

The €5bn package is part of a wider EU fiscal stimulus which the Government supports in line with policies we are pursuing nationally and internationally to help the global economy recover. Guaranteed access to funding across the EU should leverage additional investment and create jobs, and could make the vital difference between projects going ahead or not. CCS technology development in the EU as a whole will receive over €1bn as a consequence of this package. Agreement on the €5bn package represents a good and hard-fought outcome for the UK that ensures an estimated €265m (£237m) additional investment for UK energy projects (for electricity interconnection, off-shore wind and carbon capture and storage) and for the provision of broadband infrastructure in rural areas.

The UK post-abatement gross contribution associated with the Presidency compromise package will be an estimated €488m (£435m), some €70m (£62.5m) less than what it would have been for the original Commission proposal. Furthermore, in avoiding an increase to the overall Financial Framework ceiling we have ensured that at least €2bn of 2009 CAP budget margins will be reallocated to energy infrastructure projects and this represents a good outcome consistent with UK broader aims for re-shaping the budget and for a fundamental review of EU Budget expenditure.

*29 March 2009*

## ORIGIN MARKING FOR PRODUCTS IMPORTED FROM THIRD COUNTRIES (5091/06)

### **Letter from the Chairman to Gareth Thomas MP, Minister for State, Department for Business, Enterprise and Regulatory Reform**

My predecessor, Lord Grenfell, last wrote to your predecessor, Ian Pearson MP, on 8 March 2006 concerning scrutiny document EM 5091/06 on the Indication of Country of Origin. I am now writing to request an update on the progress of this scrutiny document.

We would be very grateful for any information on the progress of this document.

*28 April 2009*

## PASSENGER CAR RELATED TAX (11067/05)

### **Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Your predecessor, Angela Eagle MP, last wrote to my predecessor, Lord Grenfell, on 10 December 2007 concerning scrutiny document EM 11067/05 on Passenger Car Related Tax. I am now writing to request an update on the progress of this scrutiny document.

We would be very grateful for any information on the progress of this document.

*27 April 2009*

## RECAPITALISATION OF FINANCIAL INSTITUTIONS: LIMITATIONS OF AID AND SAFEGUARDS AGAINST UNDUE DISTORTION OF COMPETITION (16960/08)

### **Letter from the Chairman to Ian Pearson MP, Economic Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 6 January 2009 on the recapitalisation of financial institutions. Sub-Committee A considered this at its meeting of 27 January 2009.

The Sub-Committee decided to hold the document under scrutiny in conjunction with its current inquiry into financial regulation.

We would like to ask how the recent injection of state funds into the Royal Bank of Scotland relates to these guidelines. At what level has the guideline rate of returns been set? Is there a step up in the interest rate as recommended by the Commission? What, if any, safeguards have been included within the recapitalisation plan? Has a restructuring plan been agreed as part of the recapitalisation?

*4 February 2009*

### **Letter from Ian Pearson MP to the Chairman**

Thank you for your letter sent on behalf of the Sub-Committee of 4 February 2009 on the Explanatory Memorandum of 6 January 2009 on the recapitalisation of financial institutions. I apologise for the delay in replying.

You asked about the guideline rates of return. The Commission's guidelines endorsed Eurosystem recommendations that the required rate of return by the government on recapitalisation instruments for fundamentally sound banks could be determined on the basis of a "price corridor". The application of the methodology using average values of the relevant parameters determined an average required rate of return of 7% on preference shares.

Whilst the Commission considered the Eurosystem methodology to be an adequate method to determine the price of recapitalisation, the above corridor was only given as an indicative range. The Commission has and will accept alternative pricing methodologies, such as that taken by the Treasury.

In this regard the acquisition of 22.9bn ordinary shares and 1m preference shares in Royal Bank of Scotland (RBS) for £14.97bn and £5bn respectively was specifically approved by the European Commission on 13 October 2008, prior to the recapitalisation guidance.

You also asked about the Commission's interest rate recommendations, safeguards and restructuring plans. Under the terms of the Commission's approval any preference shares will accrue, for the first five years, a dividend at a rate of 12% per annum. If preference shares remain outstanding after a 5 year period, the dividend on the remaining preference shares shall accrue at a rate, reset quarterly, of 7% per annum plus the 3 month sterling LIBOR rate. The banks will also not pay any dividend in respect of the ordinary shares of the Company until the preference shares purchased by HM Treasury have been redeemed or repurchased in full.

The announcement on 19 January 2009 of the proposal to convert the Treasury's RBS preference shares into ordinary shares was and is consistent with the package of aid to the banking sector notified to and approved by the European Commission on 13 October 2008<sup>11</sup> in that it provides the most efficient capital structure for the RBS in current circumstances and value for money for Government and the issue price of ordinary shares is fixed on the basis of a market-oriented valuation.

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<sup>11</sup><http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1496&format=HTML&aged=0&language=EN&guiLanguage=en>

In addition, also in line with the Commissions guidance, recapitalised banks agreed to provide a restructuring plan within six months of the recapitalisation taking place. RBS announced the details of their restructuring alongside their intention to participate in the Asset Protection Scheme (APS). Under its decision of 23 December 2008<sup>12</sup> approving modifications to the UK recapitalisation scheme the Commission agreed that fundamentally sound banks do not need to provide a restructuring plan, but may instead provide a report that illustrates that they remain fundamentally sound and how they plan to repay the state capital.

The APS forms part of a package of measure announced on the 19 January 2009, designed to reinforce the stability of the financial system following the intensification of the global downturn, and therefore to increase the capacity of banks to lend.

On 26 February 2009 RBS confirmed that they intend to participate in the Scheme in respect of £325b of assets and will pay a participation fee of £6.5 bn to the Treasury in capital. This would be funded through the issuance of non-voting ordinary or B- Shares, which will constitute Core Tier 1 capital. In addition, RBS will, over a period to be agreed, not claim certain UK tax losses or allowances other than in the period in which they arise.

The agreement would see RBS bear the first loss amount relating to the assets in the Scheme up to £19.5 billion (in addition to historical impairments and writedowns). Losses arising in respect of the assets after the first loss would be borne 90% by the Treasury and 10% by RBS. The Scheme will apply to losses incurred on assets after 31 December 2008.

As part of the Government's commitment to financial stability, the Treasury will also make a further capital injection (in the form of B-Shares) of £13bn into RBS and commit to subscribe for an additional £6bn at RBS' option.

By participating in the Scheme RBS will be able to free up its lending capacity. Consequently, RBS will increase its lending to UK homeowners and businesses who meet RBS' ordinary course credit and pricing criteria on RBS' normal commercial terms by £25bn over the next 12 months.

Implementation of APS is conditional on state aid approval for the Scheme and are working closely with the Commission to obtain approval. The Commission issued guidance on the treatment of impaired assets on 25 February 2009<sup>13</sup>.

*19 March 2009*

## REVERSE CHARGE DEROGATION (9020/09)

### **Letter from the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury, to the Chairman**

Please find attached an Explanatory Memorandum concerning a Commission Proposal to extend the UK's derogation to apply a reverse charge mechanism to combat Missing Trader Intra-Community (MTIC) VAT fraud.

The UK applied for the original derogation in 2006 to combat increasing levels of attempted MTIC fraud. The reverse charge, which applies to mobile telephones and computer chips, removes the opportunity for MTIC fraud in those goods but is currently due to expire on 30 April 2009.

HMRC's comprehensive MTIC strategy, of which the reverse charge became a key component, has been successful over the past few years in driving down fraud levels. The UK applied for an extension of the derogation in July 2008, and made public this application in the November 2008 Pre-Budget Report.

An extension was agreed, in principle, by all other Member States at the March ECOFIN and the Commission has now come forward with a proposal. However, due to initial delays, there is now little time before the original derogation expires.

Protecting tax revenues against fraud is a key priority for the Government and we are pressing for formal agreement to the extension to take place as soon as possible. We believe that there is a strong chance that the proposal may go to the May ECOFIN Council on 5 May for adoption.

Unfortunately, this would afford very limited time for the scrutiny process to be completed. I am writing to alert you to the possibility that we might need to agree to the legislation before the

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<sup>12</sup><http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/2057&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>13</sup>[http://ec.europa.eu/competition/state\\_aid/legislation/impaired\\_assets.pdf](http://ec.europa.eu/competition/state_aid/legislation/impaired_assets.pdf)

completion of scrutiny. While this would be far from ideal, I hope that you can appreciate that these are exceptional circumstances, and it would be very difficult for the UK to not agree to this proposal which we have worked hard to secure.

*27 April 2009*

STATE AID RULES TO MEASURES IN RELATION TO FINANCIAL INSTITUTIONS  
(14306/08)

**Letter from the Chairman to Lord Myners, Financial Services Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 1 December 2008 regarding the Commission Communication on the application of State Aid rules. This was considered by Sub-Committee A at its meeting of 16 December 2008. The Sub-Committee decided to clear the document from scrutiny. The Sub-Committee would take this opportunity to state its interest in the application of, and changes to, State Aid rules in the context of the economic crisis and the Sub-Committee is keen to hear your views on this matter on the 27 January 2009 when you are due to appear before the Sub-Committee.

*17 December 2008*

TAXATION: ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION  
(6035/09)

**Letter from the Chairman to Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for your Explanatory Memorandum 6035/09 dated 28 February. Sub-Committee A considered this on 17 March and agreed to hold the proposal under scrutiny.

In the Explanatory Memorandum you express doubts on the role left to the comitology procedure in deciding the categories of capital and income for which the automatic exchange of information is required and with the provision enabling the automatic exchange of information between Member States. You explain this is because this might entail unnecessary burdens on industry.

This reasoning appears to be in contradiction with your opinion that an impact assessment of the proposal is unnecessary as there is no direct impact upon industry. The Committee considers that if there are concerns related to the reporting burdens on the industry, then an impact assessment is necessary. An impact assessment would also provide an estimate of revenue benefits resulting from improved exchange of information. We therefore encourage the Government to produce an impact assessment on the proposal.

As this proposal focuses on dealing with the administrative arrangements necessary to prevent and combat tax fraud as well as evasion, it is surprising to see that the legal basis is Article 94 rather than Article 95, meaning the proposal would be subject to qualified majority voting rather than unanimity. Tax policy, as such, remains subject to national competence. Article 95 seems a more appropriate legal basis as it ensures an effective protection of the single market. We would therefore appreciate clarification on the reasons for the choice of legal basis.

*18 March 2009*

TAXATION: GAS OIL USED AS MOTOR FUEL (7512/07)

**Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

My predecessor, Lord Grenfell, last wrote to your predecessor, John Healy MP, on 1 June 2007<sup>14</sup> concerning scrutiny document EM 7512/07 on tax arrangements for gas oil used as motor fuel. I am now writing to request an update on the progress of this scrutiny document.

We would be very grateful for any information on the progress of this document.

*27 April 2009*

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<sup>14</sup> Correspondence with Ministers, 11th Report of Session 2008-09, HL Paper 92, p 16

TAXATION: MUTUAL ASSISTANCE FOR THE RECOVERY OF CLAIMS RELATING TO TAXES, DUTIES AND OTHER MEASURES (6147/09)

**Letter from the Chairman to Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for Explanatory Memorandum 6147/09 dated 26 February, which was considered by EU Sub-Committee A on 17 March. It was agreed to hold this proposal under scrutiny.

We are pleased to note that the proposal will lead to a significant simplification of administrative practice as it promotes the adoption of common rules on mutual recovery assistance for all types of taxes, including local taxes and social security contributions.

EU Sub-Committee A also notes that the proposal is in line with the Government policy of tackling tax evasion and fraud. However, we would be glad to receive clarification on the impact of the proposal on local authorities as they have not been consulted in the formulation of the Explanatory Memorandum.

We are also interested in the figure quoted on page 3 of the Commission Explanatory Memorandum that states only 5% of recovery assistance requested is actually recovered. The Committee would like to know what figure you expect this to rise to on implementation of the proposals and what the current figure for the UK alone is. In addition, we like to receive updates on the progress of negotiations.

*18 March 2009*

TAXATION: SAVINGS INCOME (15733/08)

**Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 27 November on taxation of savings income. This was considered by Sub-Committee A at its meeting of 13 January 2009. The Sub-Committee decided to hold the document under scrutiny in anticipation of the publication of the UK Impact Assessment.

*14 January 2009*

TRADE IN SERVICES: COMPENSATORY ADJUSTMENTS UNDER THE GENERAL AGREEMENT ON TRADE IN (8121/07)

**Letter from Gareth Thomas MP, Minister for Trade and Consumer Affairs, Department for Business Enterprise and Regulatory Reform to the Chairman**

I am writing further to Ian McCartney's letter of 25 June 2007 to Lord Grenfell and Lord Grenfell's reply of 3 July of 2007<sup>15</sup>.

I apologise for not writing sooner but the purpose of this letter is to provide a concise up-date on the most recent developments on this dossier since that last exchange of correspondence.

You may recall that the Commission proposed a legal base for the proposed Council Decision comprising Articles 133(1), 133(5) and 300(2). Your Committee was content that we should proceed with the proposal provided we secured the inclusion of an additional legal base, Article 133(6).

I can confirm that the dossier proceeded from Working Group to COREPER as we had hoped, on the basis of the full Presidency compromise, adding Articles 71, 80(2), 133(6) and 300(3) to the original legal base proposed by the Commission. The Council acted unanimously in widening the legal base of the proposal.

“Mixed competence” agreements such as those at issue necessitate that Member States complete their own internal procedures before the ratification of the agreements can take place. Accordingly the proposed Council Decision (which provides for the formal conclusion of the agreements on behalf of the EC and Member States) has yet to proceed beyond COREPER to Council for adoption by the Council, as it awaits the Member States' concluding internal processes for ratification beforehand.

Beyond this, I can report two particular developments which I think will be of interest to your Committee.

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<sup>15</sup> Correspondence with Ministers, 11th Report of Session 2008-09, HL Paper 92, p 17

Firstly, the Commission has challenged the action of the Council in amending the legal base of the proposed Council Decision. The Commission has asked for a binding Opinion from the ECJ as to whether its own original proposed legal base was sufficient. The UK has intervened before the ECJ in support of the Council and the oral hearing took place on 10 February 2009. We await the ECJ's Opinion.

Secondly, in parallel, we have also taken forward our own domestic procedures for approving the agreements. We have completed the Parliamentary processes necessary to specify the agreements in question under the European Communities Act, 1972. On 11 February 2009, the Privy Council agreed the relevant Order in Council. Accordingly, we intend to notify the Council Secretariat and the Commission that we have now completed our domestic procedures for approval of the agreements.

*13 March 2009*

#### VAT: COLLECTION AND CONTROL PROCEDURES (15659/08)

##### **Letter from the Chairman to Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 1 December 2008 on VAT collection and control procedures. This was considered by Sub-Committee A at its meeting of 13 January 2009. The Sub-Committee cleared the document from scrutiny but would like to ask whether the Government continues to view the report procedure as worthwhile, despite its conclusion that previous reports have precipitated no action or debate on the issue of VAT procedure.

*14 January 2009*

##### **Letter from the Rt Hon Stephen Timms MP to the Chairman**

Thank you for your letter dated 14 January 2009 enquiring whether the Government continues to view the European Commission's reports on VAT collection and control procedures as worthwhile, despite the Commission's conclusion that previous reports have precipitated no action or debate on these issues.

I concede that reports have not thus far served as significant drivers for change, and I welcome the refreshing tone of the Commission's analysis. However, I consider that they have the potential to provide a useful tool for the sharing of experiences across Member States and stimulating debate on VAT control, collection and management, thus encouraging best practice. I would therefore support their continued production.

*2 February 2009*

#### VAT FRAUD (16774/08)

##### **Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 16 December 2008 on the Commission's proposals on the prevention of VAT fraud. Sub-Committee A considered this at its meeting of 3 February 2009.

The Sub-Committee cleared document 16676/08 from scrutiny. The Sub-Committee decided to hold the document 16774/08 under scrutiny and would like to request updates on the changes to the proposal that occur through your objections to the issues of joint and several liability.

The Sub-Committee welcomes the Government's position on several and joint liability but notes that it appears to differ from the position you maintained during our recent report on Missing Trader Fraud, where you supported joint and several liability proposals. We would be very interested to hear the reason for this perceived change in Government position.

*4 February 2009*

##### **Letter from Stephen Timms MP to the Chairman**

Thank you for your letter of 4 February, notifying us that the Commission Communication on VAT Fraud (EM 16676/08) had cleared scrutiny and drawing attention to certain aspects of the joint & several liability part of the Commission proposal (EM 16774/08).

With regards to joint & several liability, I have noted that you share some of our concerns and I will of course ensure that you are kept informed of any significant progress in Council negotiations. It is worth adding that, although discussions are still at a very early stage, it would appear that the UK's concerns with the current drafting of the proposal are shared by many Member States.

To pick up on your point about a perceived change in the Government's position, I think that it may be helpful to explain that the UK's domestic joint & several liability provisions, which we discussed when giving evidence to your report, are closely targeted on the highest fraud risks and only those traders that knew or reasonably should have known of a fraud may be held jointly and severally liable. This is substantially different from the Commission's proposal for cross border joint & several liability.

As noted in the original EM, we have a number of a concerns with the Commission's proposal. Our main reservation is that we doubt that the measure would be effective at either catching fraudsters or playing a significant role in preventing fraud from taking place. However, we do think it possible that, as drafted, a UK business making intra-Community supplies of goods to other Member States could be held liable for the debts of its customer, solely on the basis that it made a genuine error in the completion of its EC Sales List.

Under a system where the decision to hold a UK business liable would be made by the tax administration in the Member State of their customer, it would be vital that the supplier could rely upon a clear set of legal rights and means of redress. It should also be made clear that joint & several liability could only be applied in cases of fraud and where the business is proven to have knowledge or involvement in the fraud. The current proposal does not provide these safeguards and therefore would not seem to be proportionate.

This contrasts with the UK's domestic provisions which are wholly administered by HMRC and only apply to UK VAT registered businesses. When the measure was introduced, the Government gave Parliament a commitment that it would only be used in serious cases of fraud and only after a warning letter had already been issued to the business.

Although the Government cannot support the current proposal this is due to the specific concerns it has with the approach taken in the proposal. It does not necessarily follow, however, that we do not see any potential value in having a cross-border joint & several liability measure. Discussions are set to continue in Council and the UK will continue to explore the idea further with our EU partners. However, we shall make it clear that any acceptable measure will need to be proportionate, have clear legal procedures and safeguards for legitimate businesses and be effective at tackling fraud.

*18 February 2009*

#### **Letter from the Chairman to Rt Hon Stephen**

Thank you for your letter of 18 February 2009 regarding EM 16774/08 on joint and several liability. The Sub-Committee considered this letter at its meeting of 10 March 2009. We would like to thank you for your clarification of the reasons behind the Government's opposition to the proposal.

EU Sub-Committee A agreed to continue to hold the document under scrutiny in anticipation of updates on the progress of negotiations.

*18 March 2009*

#### **VAT: POSTAL SERVICES (11338/04)**

#### **Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

My predecessor, Lord Grenfell, last wrote to your predecessor, Dawn Primarolo MP, on 16 November 2006<sup>16</sup> concerning scrutiny document EM 11338/04 on VAT on Postal Services. I am now writing to request an update on the progress of this scrutiny document.

We would be very grateful for any information on the progress of this document.

*27 April 2009*

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<sup>16</sup> Correspondence with Ministers, 30th Report of Session 2007-08, HL Paper 184, p 56

## VAT: REDUCED RATES (11615/08)

### **Letter from the Rt Hon Stephen Timms MP, Financial Secretary to the Treasury, HM Treasury**

I am writing to provide you with an update of the agreement reached on VAT rates at the 10 March 2009 Ecofin. After seven consecutive Ecofin discussions of this dossier, Finance Ministers reached political agreement on a range of provisions, including giving all Member States the possibility to apply, on a permanent basis, a reduced VAT rate to (i) the services covered by the current labour-intensive services “experiment” provided for at Annex IV of Directive 2006/112/EC; (ii) restaurant services; and (iii) “books on all physical means of support”, such as audiobooks. Specific arrangements were also agreed to allow Portugal, Cyprus and Malta to apply rates below the standard rate in certain cases. Most of these provisions were originally proposed in proposal COM(2008) 428.

The Government welcomes the agreement, which will allow Member States more flexibility to use reduced VAT rates in support of their policy objectives, although we regret that it proved impossible to secure agreement on a new reduced VAT rate for repair and maintenance work to listed places of worship and monuments. The agreement will enter into force in due course, once Member States have agreed the necessary textual changes to the Principal VAT Directive (2006/112/EC).

The Council also adopted conclusions in relation to the requested renewal of the UK’s targeted reverse charge derogation covering mobile telephones and computer chips (Decision 2007/250/EC). The Commission intend to produce a proposal to renew the derogation for another two years and the conclusions declare the Council’s support for the renewal. The derogation is a key plank in the UK’s strategy to counter intra-community VAT fraud. The Council’s declaration is a decisive step forward in the renewal process and the planned extension for two years represents a very good outcome for the UK in the face of opposition to the renewal application.

We anticipate that the Commission should make a proposal in the next few weeks. This will, of course, be subject to the scrutiny process in the usual way. The Committees may like to be aware, however, that the Government will be pressing for an early agreement to the renewal as time will be very tight before the expiry of the existing derogation.

*23 March 2009*

## VAT: RULES ON INVOICING (5985/09)

### **Letter from the Chairman to Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

Thank you for your Explanatory Memorandum of 16 February 2009 on documents 5985/09 and 5991/09 on VAT invoicing. EU Sub-Committee A considered these documents at its meeting of 10 March 2009 and agreed to clear document 5991/09 from scrutiny.

EU Sub-Committee A would like to request the result of the Government’s consultation with UK business on the proposals contained within document 5985/09, in particular the effect of the proposed changes to general rules on VAT invoicing and the effectiveness of the proposals aiming to prevent VAT fraud. The Sub-Committee agreed to hold document 5985/09 under scrutiny in anticipation of your reply.

*18 March 2009*

## VAT: TREATMENT OF INSURANCE AND FINANCIAL SERVICES (16209/07)

### **Letter from the Chairman to the Rt Hon Stephen Timms MP, Financial Secretary, HM Treasury**

My predecessor, Lord Grenfell, last wrote to your predecessor, Jane Kennedy MP, on 28 April 2008<sup>17</sup> concerning scrutiny document 16209/07 on Insurance and Financial Services. I am now writing to request an update on the progress of this scrutiny document.

We would be very grateful for any information on the progress of this document.

*27 April 2009*

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<sup>17</sup> Correspondence Not Yet Published