Dear Liz,

**EMs 8353/18-8360/18: European Commission proposals for the 2021-27 Multiannual Financial Framework**

Thank you for your Explanatory Memorandum, dated 18 June 2018, on EMs 8353/18-8360/18, on the Commission’s proposal for a 2021-2027 Multiannual Financial Framework. The European Union Select Committee considered these documents at its meeting on 24 July 2018, drawing on input from its six subject-specific sub-committees.

The European Commission’s draft MFF is an important proposal that will shape the future spending priorities of the EU. If the UK is to contribute to the EU budget in exchange for participation in specific programmes – as advocated by the Government in its Explanatory Memorandum – then many of the European Commission’s spending proposals will have an impact on the UK after the proposed end of the post-Brexit transition period in 2020.

We therefore encourage the Government to engage in discussions on the MFF within the EU institutions, and welcome your statement that the UK is “participating in the next MFF working group discussions”. Could you provide more detail on the mechanisms through which the UK is participating, and what its priorities are in these discussions? More broadly, is the Government carrying out work to model the impact of its White Paper proposals on the potential UK financial contributions to the EU?

The Committee has scrutinised the Commission’s proposal for each instrument. Our specific questions and comments on items that could hold relevance to the UK after Brexit are given below.

**Own Resources of the EU**

The Commission has proposed a number of changes to the EU’s system of Own Resources, which would contribute on average €22 billion per year and correspond to around 12% of total EU budget revenue. Those related to the EU’s Emissions Trading System (ETS) and the charge on non-recycled plastic packaging waste would effectively amount to an EU-level tax. The Commission would also like to increase the EU’s revenues from own resources through a national contribution based on the amount of non-recycled plastic packaging waste, which it estimates would raise approximately €6.6 billion per year. As taxation is traditionally a Member State competence, what is the Government’s view on this?
A key part of the Commission’s Own Resources proposal relates to the existing system of rebates, which in 2016 reduced the UK contribution by around a third, or €5.9 billion. The Commission has announced its intention to phase these out from 2021–2025. Does the Government think this is justified?

The Commission has also proposed reducing the proportion of customs duties that Member States can retain as “collection costs” from 20% to 10%, which it estimates could raise an additional €2.5 billion of annual EU revenue. Does the Government have an estimate of how this could affect the UK’s contributions to the EU budget? Does this proposal have any implications for the UK’s future customs relationship with the EU?

The Commission also suggests that 20% of the auctioning revenues from the EU’s Emissions Trading System (ETS) should now go to the EU budget, raising an estimated €3 billion per annum. As the Government has indicated its openness to participating in the EU ETS, would it expect the UK to contribute in this regard? If so, what would the UK’s contribution be, and how would this interact with the existing obligation that at least half of the revenues from auctioning allowances should be used to combat climate change?

Fiscalis – Cooperation in the field of taxation

Your Explanatory Memorandum makes no mention of the Fiscalis programme. Has the Government considered what contributions it may need to make were it to continue participating in the programme after the UK’s withdrawal from the EU?

Horizon Europe

We note the Commission’s intention to continue its research and innovation programme through Horizon Europe, which will be a substantial expansion on Horizon 2020. We also note that the UK has historically been the leading recipient of Horizon 2020 funding.

Given the Prime Minister’s intention continue taking part in policies and programmes that are to the UK and EU’s joint advantage, such as those promoting science, what progress has been made on securing participation in Horizon Europe and agreeing the consequential financial contribution? Has the Government now made an assessment of the cost of association with Horizon Europe compared to expected returns?

We also note that the budget allocation for this programme is 21% higher than for its predecessor. Do you agree that the UK’s competitiveness could be at risk if its investment in innovation does not keep pace with that of the EU?

Connecting Europe Facility

EU investment via the Connecting Europe Facility (CEF) has also been helpful in constructing and maintaining a secure energy system in the UK. We recall that in our report on Brexit: energy security we recommended that the Government seek a settlement with the EU which would allow the continued participation in transnational energy projects, such as the Projects of Common Interest (PCIs) which are facilitated by the CEF.

Does the new Connecting Europe Facility (CEF) present a funding gap for any UK infrastructure projects that received support from the previous CEF? Are there any specific implications of this CEF for mobility projects between Ireland and Northern Ireland?
Your EM notes that there will be a new military mobility element to the CEF. What is the impact of this on the relative CEF allocation to energy, telecoms and civilian transport projects?

Digital Europe Programme

We note the substantial increase in research, innovation and digital investment under direct management in the next Financial Framework. Do the UK’s strategic investment priorities for the digital industry align with those set out by the Commission? If not, what differences would you identify?

Single Market Programme

The proposed Single Market Programme has a particular focus on services to support and engage with SMEs on single market rules. We note that UK SMEs trading in the EU after Brexit will continue to require such support. Can the Government clarify if there would be any change to the operation of the UK’s SOLVIT centre during the proposed transition period, and if it is envisaged to continue to operate in any form thereafter?

Space

The proposed allocation to space activities sets out the Commission’s ambition to enhance its capabilities through increased funding and integrated governance. Would this MFF increase the proportion of total European Space Agency (ESA) funding attributable to the EU?

European Solidarity Corps

During previous scrutiny correspondence, the Government has not been forthcoming on its position on participation with the European Solidarity Corps post-Brexit. Have there been any developments in this regard?

Creative Europe

We note that the EU’s Creative Europe programme for the upcoming MFF period will have an increased focus on the audiovisual sector. We reiterate the conclusions in our Brexit: trade in non-financial services report, which called for clarity on the Government’s intended post-Brexit strategy to maintain the UK audiovisual sector’s leading position within Europe and globally.

Cooperation in the field of customs

Given that the Customs Programme is effectively an intra-EU programme designed to facilitate customs cooperation between EU Member States only, there are no direct implications for the UK after Brexit. However, irrespective of which customs model is ultimately adopted by the UK after the transition period has come to an end, there will need to be continued cooperation between UK customs officials and officials in the 27 EU Member States. What are the Government’s plans to facilitate such cooperation?

European Defence Fund
As part of its scrutiny work on the regulation establishing the European Defence Fund, as well as part of its work on the European Defence Industrial Development Programme (EDIDP) and Permanent Structured Co-operation, the EU External Affairs Sub-Committee has already asked the Government for detailed information on its vision of the UK’s future participation in, or cooperation with, the fund and related defence programmes. It would therefore not be appropriate to raise these questions again at this time. The Committee will also continue to scrutinise internal NATO discussions and the impact this may have on future EU-NATO cooperation.

**Neighbourhood, Development and International Cooperation Instrument**

We welcome this attempt to combine various instruments and make the delivery of EU external action more effective. The EU External Affairs Sub-Committee is raising its questions about the new instrument directly with Sir Alan Duncan MP, FCO Minister of State for Europe and the Americas, as part of its scrutiny work.

**Euratom Research and Training Programme**

We note the Commission’s statement that “The key European added value of the Euratom Programme is the mobilisation of a wider pool of excellence, expertise and multi-disciplinarity in fission and fusion research than is possible at the level of individual Member States.” Furthermore, in our Brexit: energy security report, we concluded that it would be to the benefit of both the UK and the EU to maintain nuclear research connections post-Brexit. What progress has been made in negotiating the new multilateral cooperation agreement to ensure the UK is able to participate in ITER despite its withdrawal from Euratom? What assessment has been made of the financial contribution that would be required?

**European Regional Development Fund and Cohesion Fund**

The aims of the European Regional Development Fund and Cohesion Fund, which relate to reducing inequalities between countries and regions of the EU, will no longer be relevant to the UK once it ceases to be a Member State. However, funding from these sources has been used to support the shift towards a low carbon economy, promote climate change adaptation, and protect the environment and promote resource efficiency. Given the Commission’s statement that “Evidence exists that only limited parts of these investments would happen without the two Funds, even in more developed Member States”, do you intend to establish equivalent funding post-Brexit?

**European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development**

We note that the proposed budget allocation for these funds represents a decrease from the previous MFF, largely as a result of the withdrawal of UK contributions. We also note that the Government has not yet stated its intentions regarding the level of agricultural funding that will apply in the UK post-2020. Given that significant differences could obstruct UK-EU trade or put UK producers at a competitive disadvantage, to what extent do you anticipate matching domestic levels of agricultural support with those of the EU, now that they have been clarified? Furthermore, what assessment has the Government made of how EU spending priorities within these two funds will affect British farmers?

**European Maritime and Fisheries Fund**
Witnesses to our Brexit: fisheries inquiry expressed no desire to continue to participate in this programme. However, given that the Fund’s objective is to support a sustainable fisheries sector and the UK received €243.1 million from the Fund under the 2014-2020 MFF, do you intend to establish equivalent domestic funding post-Brexit?

*International Fisheries Agreements*

We note that these Agreements allow fishing access to third country waters, and require annual financial contributions. In which of the International Fisheries Agreements to which the EU is a signatory does the UK have fishing interests? What assessment have you made of the financial contributions required to maintain those Agreements? Are you confident it will be possible to re-establish, by the time the UK leaves the EU, those agreements in a way that ensures third countries’ fishing industries remain sustainable?

*LIFE – Programme for the Environment and Climate Action*

As its objectives do not include the coordination of activity between countries there is no particular need for the UK to seek continued participation in this programme. However, a number of witnesses who gave evidence to our Brexit: environment and climate change inquiry identified LIFE as one of the means through which environment and climate protection is funded in the UK. Do you have any plans to establish an equivalent funding mechanism post-Brexit?

*Rights and Values Programme*

The UK will naturally maintain an interest in the first strand (equality and rights) and the third strand (preventing and combatting violence), and the Government should seek to maintain links with the EU on these initiatives. While the UK will have no say on how funds are allocated, the Committee is interested to know how NGOs are chosen to receive funding, and how they are held accountable for the efficient and effective delivery of objectives, including in the context of actions by the Hungarian Government against certain NGOs. What analysis has the Government conducted about the impact on UK NGOs of losing access to these EU funds (including the impact on UK NGOs that work to promote rights and values in non-EU countries). Are there plans to maintain funding levels?

The second strand includes promoting engagement and participation in the democratic life of the Union. As stated in our letter of 3 May 2018 to Chloe Smith MP, Minister for the Constitution, we are concerned that the UK has not paid sufficient attention to its responsibilities to EU citizens living in the UK and wishing to vote in European Parliamentary elections.

*Justice Programme*

The EU is developing “an integrated European justice area and cross-border cooperation” in civil and criminal justice. The Government wishes to maintain close links with the EU’s crime-fighting mechanisms, but does not wish to be part of co-operation mechanisms that involve the CJEU, and has yet to set out a clear position on how deeply it wants to cooperate with the EU on civil justice matters. How will the UK respond if justice cooperation within the EU continues to increase, and will the Government consider engaging with mechanisms that benefit the UK even if they involve the CJEU? We note that EM 9598/18 proposing a Regulation establishing the Justice programme “contains provisions for association to the
programme for third countries”, which opens the door for the UK opting in once it has left the EU.

Public Administration

The UK shares the Commission’s interest in prioritising research and innovation, and the digital economy. How will the UK interact with the EU’s spending plans and regulations in these areas?

Erasmus

We note that the Government has indicated that it will continue to participate in the current Erasmus+ programme until 2020. However, there is no indication in the EM of the Government’s longer-term intentions. We note that prospective participants may be reluctant to sign up if there is uncertainty about the future of the programme for UK participants beyond 2020. Will the Government will seek to continue participation beyond 2020, and, if you are unable to confirm this, when will this decision be announced?

We would also welcome clarification on whether the Government has evaluated the benefits to the UK of continued participation in Erasmus post-2020 and on what findings were made, along with the costs to the UK to participate post-2020 and the expected number of participants.

Migration and security

The UK and EU have publicly stated that they have a deep shared interest in maintaining close security cooperation. The Government told the Committee in evidence for its report Brexit: the proposed UK-EU security treaty that it wished to secure a future relationship that as far as possible maintained the operational status quo. Such a relationship may require the UK to make financial contributions to mechanisms such as Europol and EU-LISA. Is this your understanding? Will the UK be able to make contributions to the budgets of such instruments as a third country, and if so, what role could it have in the relevant governance structures?

The UK opted into the Asylum, Migration and Integration Fund in the MFF for 2014-20. It was allocated €370 million for that period for use on UK priorities in the field of migration and integration. It is unclear what the UK’s position will be after 2020, or how it intends to make up this shortfall, should the UK no longer contribute to this fund in the next MFF. What is the existing balance between UK contributions to, and receipt from, the Fund? Does the UK intend to continue to contribute to this Fund, and how will it make up any budgetary shortfall if it is unable to do so?

Response to crisis

The Government is yet to set out a clear position on how deeply it wishes to cooperate with the EU in crisis response efforts, during the transition period and afterwards. Does the Government intend to continue to contribute to the EU response mechanisms during the transition period and beyond? If not, in what ways does the Government envisage that the UK will engage with crisis response mechanisms such as rescEU when the UK becomes a third country?

Instrument for pre-Accession Assistance
With regard to the Instrument for pre-Accession Assistance (IPA) for EU candidate countries, we note the Commission’s proposals to increase funding in real terms by 13% despite a presumed end to the UK contribution. This implies a significant increase in each remaining Member State’s contributions to EU assistance in the Western Balkans and Turkey. Given the UK’s stated commitment to help these countries join the EU, does the Government intend to pursue continued contributions to the IPA? If so, have you considered the impact of the EU’s planned increase in the scheme’s funding, and whether this would require a higher UK contribution than at present? Alternatively, does the Government envisage setting up any new bilateral aid programmes that mirror – or work with – the new IPA to help countries of the region meet their EU accession criteria?

Rule of law

As part of the MFF package, the European Commission proposes to introduce a mechanism to reduce, restrict, or suspend EU funding from countries where breaches in the rule of law are found and where the independence of the judiciary is in question. We note that in earlier correspondence, Ministers have affirmed that “the UK is a strong voice on the global stage with respect to [the] importance of the rule of law and an independent judiciary”. How will the Government approach negotiations on this proposal between now and March 2019?

PEACE funding for Northern Ireland/ Ireland

The European Commission has proposed to establish a new PEACE PLUS project, building on previous iterations of the previous PEACE scheme that has benefited communities in Northern Ireland and the border region of Ireland. The Committee welcomes the commitments made by both the UK and the European Commission in the December 2017 Joint Report not only to continue the existing scheme until 2020, but also to “examine future PEACE and INTERREG programmes [in Northern Ireland] favourably”. This proposal by the Commission allocates €120 million of funding to PEACE PLUS – around half of that received by the programme in 2014-2020 – and sets out the possibility of UK joint management and participation, with UK contributions integrated as external assigned revenue. Has the Government made a decision to participate in PEACE PLUS, and if so how much funding to contribute to it?

We would be grateful for a response by 4 September 2018. In the meantime, we will retain the document under scrutiny.

Lord Boswell of Aynho
Chairman of the European Union Committee