



House of Commons
European Scrutiny Committee

**Fourteenth Report of
Session 2009–10**

Documents considered by the Committee on 10 March 2010

Report, together with formal minutes

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Notes

Numbering of documents

Three separate numbering systems are used in this Report for European Union documents:

Numbers in brackets are the Committee's own reference numbers.

Numbers in the form "5467/05" are Council of Ministers reference numbers. This system is also used by UK Government Departments, by the House of Commons Vote Office and for proceedings in the House.

Numbers preceded by the letters COM or SEC are Commission reference numbers.

Where only a Committee number is given, this usually indicates that no official text is available and the Government has submitted an "unnumbered Explanatory Memorandum" discussing what is likely to be included in the document or covering an unofficial text.

Abbreviations used in the headnotes and footnotes

EC	(in " <i>Legal base</i> ") Treaty establishing the European Community
EM	Explanatory Memorandum (submitted by the Government to the Committee)
EP	European Parliament
EU	(in " <i>Legal base</i> ") Treaty on European Union
GAERC	General Affairs and External Relations Council
JHA	Justice and Home Affairs
OJ	Official Journal of the European Communities
QMV	Qualified majority voting
RIA	Regulatory Impact Assessment
SEM	Supplementary Explanatory Memorandum

Euros

Where figures in euros have been converted to pounds sterling, this is normally at the market rate for the last working day of the previous month.

Further information

Documents recommended by the Committee for debate, together with the times of forthcoming debates (where known), are listed in the European Union Documents list, which is in the House of Commons Vote Bundle on Mondays and is also available on the parliamentary website. Documents awaiting consideration by the Committee are listed in "Remaining Business": www.parliament.uk/escom. The website also contains the Committee's Reports.

Letters sent by Ministers to the Committee about documents are available for the public to inspect; anyone wishing to do so should contact the staff of the Committee ("Contacts" below).

Staff

The staff of the Committee are Alistair Doherty (Clerk), Laura Dance (Second Clerk), David Griffiths (Clerk Adviser), Terry Byrne (Clerk Adviser), Sir Edward Osmotherly (Clerk Adviser), Peter Harborne (Clerk Adviser), Paul Hardy (Legal Adviser) (Counsel for European Legislation), Dr Gunnar Beck (Assistant Legal Adviser), Hannah Lamb (Senior Committee Assistant), Allen Mitchell (Committee Assistant), Mrs Keely Bishop (Committee Assistant), Dory Royle (Committee Assistant), Shane Pathmanathan (Committee Support Assistant), and Paula Saunderson (Office Support Assistant).

Contacts

All correspondence should be addressed to the Clerk of the European Scrutiny Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is (020) 7219 3292/5465. The Committee's email address is escom@parliament.uk

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1 Aviation security charges

(30645) Draft Directive on aviation security charges
 9864/09
 + ADDs 1–2
 COM(09) 217

<i>Legal base</i>	Article 80(2) EC; co-decision; QMV
<i>Department</i>	Transport
<i>Basis of consideration</i>	Minister's letter of 4 March 2010
<i>Previous Committee Report</i>	HC 19–xxi (2008–09), chapter 2 (24 June 2009), HC 19–xxv (2008–09), chapter 4 (21 July 2009), HC 19–xxvi (2008–09), chapter 4 (10 September 2009) and HC 5–iii (2009–10), chapter 5 (9 December 2009)
<i>To be discussed in Council</i>	11 March 2010
<i>Committee's assessment</i>	Politically important
<i>Committee's decision</i>	Not cleared; further information requested

Background

1.1 Regulation (EC) No 300/2008 updated legislation establishing common standards for civil aviation security and creating a system of inspections.¹ In March 2009 Directive (EC) No 12/2009 on airport charges in general (the Airport Charges Directive) was adopted.² However the question of charges related to security was not addressed during the negotiation of this Directive, as the findings of a Commission report were still awaited. This report, when it emerged, suggested that draft legislation was in preparation.³

1.2 In May 2009 the Commission presented this draft Directive on aviation security charges which would require:

- airport managing bodies to provide each user annually with information on the components serving as a basis for determining the level of all security charges levied at an airport;
- Member States to undertake impact assessments for all new and current measures that are more stringent (referred to as More Stringent Measures) than the standard Community-wide requirements;
- Member States to ensure that security charges are used exclusively to meet security costs; and

1 (26861) 12588/05: see HC 34–viii (2005–06), chapter 4 (2 November 2005), HC 34–xv (2005–06), chapter 2 (18 January 2006) and HC 34–xxi (2005–06), chapter 1 (8 March 2006) and *Stg Co Deb*, European Standing Committee, 7 March 2006, cols 3–16.

2 (28346) 5887/07 + ADDs 1–2: see HC 41–xi (2006–07), chapter 3 (28 February 2007), HC 16–ii (2007–08), chapter 4 (14 November 2007) and HC 16–iv (2007–08), chapter 22 (28 November 2007).

3 (30429) 6074/09: see HC 19–xi (2008–09), chapter 14 (18 March 2009).

- Member States to nominate or establish an independent body to ensure the correct application of these measures.

1.3 The Airport Charges Directive sets out principles for how airports should set airport charges and their relationship with airports. It covers many of the same areas mentioned in the draft Directive, such as non-discrimination, consultation requirements, providing information about underlying costs and how charges are set and a right of appeal to a regulator. However, the draft Directive differs from the Airport Charges Directive in a number of ways, including that:

- the Airport Charges Directive only covers airports with an annual traffic of five million or more passenger movements, but there is no size threshold in this proposal; and
- the Airport Charges Directive allows multi-annual agreements whereas this proposal requires annual agreements.

1.4 We have considered this document a number of times. On the first occasion, in June 2009, we concluded that although the matter of aviation security charges clearly had to be addressed, this draft Directive presented some problems. So we asked, before considering it further, to hear from the Government about developments on:

- its view of subsidiarity;
- More Stringent Measures;
- the differences between the Airport Charges Directive and this proposal;
- the potential impact on small airports;
- separately identified security charges;
- the Government's analysis of the Commission's impact assessment and of the financial implications of the proposal; and
- its consultations.

1.5 By the time we last considered the matter, in December 2009, we had already heard that Council working party negotiations had led to revised text which answered the Government's concerns on subsidiarity and More Stringent Measures. In December 2009 we were told additionally that:

- it was looking likely that a general approach would be sought at the Transport Council on 17–18 December 2009; and
- there were still a number of issues, however, that Member States were not able to resolve in the working group;
- 23 organisations had responded to the Government's consultation;
- the Government's analysis and response were still in preparation but what was clear was that airlines in particular would welcome transparency of charges, smaller

airports had expressed concern at the administrative burdens they would face if the qualifying threshold were to be below five million passenger movements and impact assessments for More Stringent Measures were broadly welcomed;

- in relation to the Government's concerns about the potential impact on small airports, including those in the Highlands and Islands, the smaller airports and representative organisations also raised concerns about the costs of implementing the proposed Directive in their responses to the consultation;
- the Swedish Presidency had indicated recently that it was minded to align the scope of the proposal with the Airport Charges Directive, that is with a five million passengers per annum threshold, but unlike that Directive not to include the largest airport in a Member State if no airport exceeded five million passenger movements;
- the Government welcomed this change as it brought the provision largely into line with the Airport Charges Directive and smaller airports, such as those in the Highlands and Islands, would not be covered by the proposed Directive;
- although the Government's principal security concern in the negotiations had been to ensure that Member States' ability to swiftly put in place More Stringent Measures should not be restricted and this point had now been addressed in the revised text, it thought that the proposal still required significant further work and that it was not ready for a general approach;
- it had made these points strongly to the Presidency — nevertheless, the Presidency still hoped that it would be possible to reach a general approach at the December 2009 Council;
- the Government intended, therefore to take the line that any agreement needed to ensure a genuine level playing field in all Member States, that the appeals mechanism should be aligned with that in the Airport Charges Directive and that provisions on cost-relatedness should strike a fair balance between passengers and airport operators; and
- unless these issues could be resolved the Government was minded to inform the Council that it was abstaining from any agreement to a general approach.

1.6 We noted the helpful improvements to the proposal already secured. But we noted also that there were issues still outstanding that meant the Government would not yet wish to acquiesce in a general agreement — a position which we applauded. We said that before considering the matter again we wished to hear of further improvements to the draft text — meanwhile the document continued to remain under scrutiny.⁴

4 See headnote.

The Minister's letter

1.7 The Parliamentary Under-Secretary of State, Department for Transport (Paul Clark), now gives us an account of where matters stand on this draft Directive, saying that:

- in the event the Swedish Presidency concluded that a general approach was not yet possible and the draft Directive was only the subject of a progress report at the December 2009 Council;
- the Spanish Presidency has had just one further working group meeting, the outcome of which was that another progress report is to be made at the Transport Council in March 2010;
- there have been no substantive changes to the amendments previously agreed in the working group, in particular that the measure should only apply to airports handling more than five million passengers per annum;
- the Presidency is now awaiting the outcome of the European Parliament's first reading of the proposal before returning to it;
- the European Parliament has just concluded the committee stage of its consideration, with the TRAN Committee voting on a series of amendments to the Commission's original draft Directive;
- in particular the TRAN Committee favours applying the Directive to all commercial airports and requiring Member States to pay for More Stringent Measures; and
- the European Parliament's plenary first reading is currently scheduled for April 2010.

1.8 Recalling that in December 2009 he had given us an overview of the outcome of the Government's public consultation on the draft Directive, the Minister gives us a summary, published in January 2010, of responses and the Government response.⁵ He notes that:

- the responses show that airports are broadly supportive of the five million threshold and that airlines welcomed transparency on charges;
- most respondents recognized the need for Member States to be able to introduce additional security measures in response to an immediate threat without first having to carry out an impact assessment; and
- a majority of respondents were also concerned about the administrative burdens which could flow from the proposal.

1.9 The Minister comments that:

- whilst the Government continues to consider that the proposed Directive will not have a significant effect on charges levied by UK airports, it does consider that

5 See <http://www.dft.gov.uk/consultations/closed/aviation-security-charges/govresponse.pdf>.

there could be potential benefits for UK airlines operating out of other EU airports and consequently for UK passengers;

- the proposal could bring greater visibility of charges, especially in countries which are less market based or have limited regulation, and it therefore may help to drive down costs;
- the impacts of the proposal, however, remain far from clear, not least because the Commission's own impact assessment is based on looking at a very small number of airports in just one Member State; and
- there would be costs for those airports which do not separately identify security costs, there would also be a cost in setting up consultative committees with airlines and a cost to Government in establishing or nominating an Independent Supervisory Authority to ensure the correct application of the proposed requirements.

1.10 Recalling that the Government's principal security concern in the negotiations has been to ensure that Member States' ability to swiftly put in place More Stringent Measures, if needed, should not be restricted and that this point has been resolved in the current working text, the Minister says that:

- the Government cannot support the amendment proposed by the European Parliament, requiring Member States to pay for More Stringent Measures; and
- it remains firmly behind the 'user pays' principle, as it would be wrong to burden the general taxpayer with these costs.

1.11 Turning to how matters may proceed on the draft Directive the Minister says that:

- there is still no consensus among Member States — many questions remain unresolved and will need to be followed up by the Presidency (including better alignment with the Airport Charges Directive);
- there is likely to be a further working group meeting in April 2010, which will need to consider the stance taken in the European Parliament TRAN Committee and the potential plenary vote;
- the Government's view is that the proposal still requires significant further work and that it is not ready for a general approach — points made strongly to the Presidency;
- it is pleased that the item is only on the March 2010 Transport Council agenda for a further progress report; and
- if, however, in future the Council proceeds to discussion of a general approach the Government proposes to take the line that any agreement needs to ensure a genuine level playing field in all Member States, that the appeals mechanism should be aligned with that in the Airport Charges Directive and that provisions on cost-relatedness should strike a fair balance between passengers and airport operators.

Conclusion

1.12 We are grateful for the Minister's latest account of where matters stand on this draft Directive. We note both that little progress has been made in Council consideration of the proposal and the unhelpful approach of the European Parliament's TRAN Committee. We applaud the Government's stance on the draft Directive — that as the draft Directive presently stands a general approach is not possible. And we hope to hear of further improvements to the text in due course. Meanwhile the document continues to remain under scrutiny.

2 Civil aviation

(31113) 15469/09 + ADDs 1–2 COM(09) 611	Draft Regulation on investigation and prevention of accidents and incidents in civil aviation
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<i>Legal base</i>	Article 80(2) EC; co-decision; QMV
<i>Department</i>	Transport
<i>Basis of consideration</i>	Minister's letter of 4 March 2010
<i>Previous Committee Report</i>	HC 5–iii (2009–10), chapter 6 (9 December 2009)
<i>To be discussed in Council</i>	11 March 2010
<i>Committee's assessment</i>	Politically important
<i>Committee's decision</i>	Cleared

Background

2.1 Recommended international standards and practices for air accident investigation are laid out in an annex to the Convention on International Civil Aviation 1944 (Chicago Convention), to which all Member States are signatories.

2.2 The Community:

- engages in close cooperation and mutual assistance in the field of air accident and incident investigation; and
- has established common basic obligations through Directive 94/56/EC, which establishes fundamental principles governing the investigation of civil aviation accidents and incidents.

2.3 This draft Regulation is intended to build upon and replace Directive 94/56/EC. It would enhance cooperation in the field of air accident investigation by coordinating activity through a new European Network of Civil Aviation Safety Investigation Authorities, so formalising the existing informal cooperation between national Safety

Investigation Authorities. The objectives of the Network would be contained in a legally binding framework but the proposed Regulation would not create a new Community body — the Network would have no legal personality and its mandate would be limited to an advisory and coordination role. In case voluntary cooperation could not resolve issues, the proposed Regulation would provide a number of obligations within the legally binding framework, which would:

- update and replace the key elements of Directive 94/56/EC;
- ensure common obligations for Member States in relation to the organisation and independence of national Safety Investigation Authorities;
- enshrine in Community law the international standards asserted in the Chicago Convention, particularly in regard to protection of information;
- elucidate the roles and requirements of the European Aviation Safety Agency and national Safety Investigation Authorities; and
- ensure the preservation and protection of sensitive information and evidence.

2.4 The draft Regulation would prohibit disclosure of sensitive safety information except for use in safety investigations, in order to promote an honest and open reporting culture. The majority of records protected by the proposed Regulation are already protected by existing legislation, but three new types of information have been included in the draft text, in order to improve cooperation.

2.5 When we considered the proposal, in December 2009, we noted that the Government:

- welcomed this proposed Regulation and was supportive of the objectives sought by its provisions; and
- believed that improved assistance and collaboration in the investigation of air accidents and incidents would lead to a better understanding of the causes of accidents and therefore to increased safety in aviation.

We heard also that the Government was launching a formal written consultation process on the draft Regulation, as the proposal might be of interest to airlines departing from the UK, all of whom would be required to produce a list of persons on board an aircraft in the event of an accident to the aircraft, in order to facilitate information sharing and support to the families of victims. We said that, although this proposal seemed unexceptionable, we wished to have the outcome of the Government's consultation on it before considering the matter further.

The Minister's letter

2.6 The Parliamentary Under-Secretary of State, Department for Transport (Paul Clark) says that:

- the Government's consultation on the proposal was due to close on 3 March 2010;

- negotiations are progressing rapidly in Council working group and the Government anticipates that the Spanish Presidency will seek a general approach at the Transport Council on 11 March 2010; and
- subject to review of textual revisions arising from the outcome of working groups on 1 and 2 March 2010, it is possible that the Government might wish to support such a general approach at the Council.

So he writes now with a summary of responses to date to the consultation and to provide us with information on the progress made in negotiations.

2.7 The Minister tells us that the Government has received nine responses to its consultation document⁶ on the proposed Regulation, saying that:

- these included responses from bodies representing pilots and passengers, as well as a response from one airline and one manufacturer;
- of the nine responses, four provided direct answers to the questions raised in the document and five provided general comments and observations;
- all responses were broadly supportive of the proposed Regulation;
- none raised any issue which has not already been subject to discussion in working group or which has caused the Government to alter its negotiating position; and
- in summary, all respondents agreed that there was a need for change in order to improve the efficiency of investigations of accidents and incidents in civil aviation across the EU and approved the broad thrust of the Commission's impact assessment, conclusions and preferred options.

2.8 The Minister then expands on some of the detail arising from the consultation, saying that:

- all respondents supported the proposed creation of a European Network of Civil Aviation Safety Investigation Authorities, commenting that such a system would strengthen the coordination of activity and lead to improved safety in aviation — it has been agreed in the working group that a network should be established and negotiations are ongoing to determine the core functions of this network;
- given European Aviation Safety Agency's responsibility to produce airworthiness directives, respondents recognised the need for the agency to have a role in safety investigations;
- however, most did not agree entirely with the Commission's approach to the agency's involvement — respondents suggested that the agency, as the EU safety regulator, should participate but only in manner which did not impinge on the independence of the investigator in charge and did not lead to a conflict of interest with the agency's regulatory responsibilities;

6 See <http://www.dft.gov.uk/consultations/closed/2010-03/consultation.pdf>.

- respondents suggested that the agency’s involvement should be aligned with the role of advisor as set out in International Standards and Recommended Practices annexed to the Chicago Convention — such responses match the view expressed by the Government in on-going working group discussion;
- all respondents supported the Commission’s proposal that the agency should have full access to all of the information contained within the European central repository of mandatory occurrence reports to enable it to undertake analyses of occurrences and enhance its capability to deliver effectively its safety responsibilities;
- working group negotiations have led to changes to the Article outlining the role of the agency and the Government is reassured that these changes reflect the concerns expressed by respondents — amendments to the text have modified the agency’s involvement to that of advisor, in line with International Standards and Recommended Practices, and clarified its role so as to limit its rights to those afforded to safety regulators, thus ensuring the agency’s participation will not lead to a conflict of interest with its regulatory responsibilities;
- the importance of protecting sensitive safety information was recognised and supported by all respondents — the majority even suggested that the text could be strengthened in order to reinforce the maintenance of a “just culture” approach of open reporting designed to improve aviation safety;⁷
- participants in the working groups are supportive of the need to maintain a just culture approach of open reporting and negotiations are ongoing to ensure the wording of the text adequately protects sensitive safety information;
- respondents recognised the benefits of the swift production of a passenger list in the event of an accident and were broadly supportive of the Commission’s proposal that such a list should be provided as quickly as possible;
- however, rather than the Commission’s focus that such a list should be produced within one hour, one respondent suggested that the requirement to produce an accurate list should take precedence over the need to produce a timely list and that, in some cases, one hour might not be a practicable timeframe;
- participants in the working groups support the production of a passenger list as soon as possible after the occurrence of an accident and the scope of the proposal is to be extended to incorporate this obligation;
- negotiations are ongoing and it has not yet been agreed, should a time limit be set, how quickly passenger lists would have to be produced; and
- respondents agreed with the Commission’s proposal that Member States should have in place a national plan to provide assistance to the victims of civil aviation accidents and their relatives — there is strong support in the working group for this

⁷ The concept of a “just culture” is designed, in the context of promoting safety, to protect honest mistakes from being seen as culpable.

and, consequently, the scope of the proposal is to be extended to include explicit reference to this requirement.

2.9 The Minister says that, following closure of its consultation, the Government will publish a summary of all responses on the Department website; that in the meantime, it is satisfied that all responses to the consultation have informed its negotiating position; and that it is sure that the issues raised are being reflected in the discussion and emerging textual revisions from the working group.

2.10 The Minister also tells us that the European Parliament is at an early stage in its consideration of this proposal and has provisionally scheduled its plenary first reading for June 2010.

Conclusion

2.11 **We are grateful for the Minister’s comprehensive account of where matters stand on this draft Regulation. We note that the Government’s consultation seems to have revealed nothing that invalidates our original view that this proposal is unexceptionable and we now clear the document.**

3 Reducing health inequalities

(31048) 14848/09 COM(09) 567	Commission Communication on <i>Solidarity in health: reducing health inequalities in the EU</i>
+ ADDs 1–2	Commission staff working documents: impact assessment and summary of assessment

<i>Legal base</i>	—
<i>Department</i>	Health
<i>Basis of consideration</i>	Letter of 4 March 2010 from the Health Committee
<i>Previous Committee Report</i>	HC 5–ii (2009–10), chapter 4 (25 November 2009)
<i>To be discussed in Council</i>	No date set
<i>Committee’s assessment</i>	Politically important
<i>Committee’s decision</i>	Cleared

Previous scrutiny

3.1 Last November, we considered this Commission Communication on reducing health inequalities in the EU, such as a five-fold difference between Member States in infant mortality; a 14 year gap in life expectancy at birth for men; and an eight year gap for women. The Commission stressed that health inequalities are not inevitable. It cited action

the EU had already taken to try to help reduce inequalities through, for example, the Council Recommendation on cancer screening, the Framework Programmes on R&D and the Structural Programmes.

3.2 But, in the Commission's view, further action is needed to:

- promote an equitable distribution of good health as part of overall social and economic development;
- improve the data on health inequalities and the mechanisms for measuring, monitoring, evaluating and reporting on inequalities (for example, develop a common set of indicators; and disseminate best practice and the results of relevant research);
- build a commitment across society to reduce health inequalities (for example, publicise health inequalities and encourage cooperation between public bodies, employers, trades unions, and civil society to tackle them);
- meet the needs of vulnerable groups such as the Roma, people with disabilities and children living in poverty; and
- develop the contribution of EU policies to the reduction of inequalities (for example, consider how Member States might make better use of cohesion policy, the Structural Funds and other existing EU policies and programmes).

The Commission intends to issue a progress report on health inequalities in 2012.

3.3 In her Explanatory Memorandum of 11 November 2009, the Minister of State for Public Health at the Department of Health (Gillian Merron) told us that the UK is an international leader in policies to tackle health inequalities and that the Communication did not have significant policy implications for the UK.

3.4 We decided to draw the Communication to the Health Committee's attention and asked for its Opinion on the document. Meanwhile, we kept the Communication under scrutiny.

The Health Committee's Opinion

3.5 On 4 March the Health Committee replied. It notes that the Committee published a report on health inequalities in March 2008 and invites us to treat that report as the Committee's Opinion.⁸

3.6 The report says that, during the course of its inquiry, the Health Committee heard widespread praise and support, both in this country and abroad, for the explicit commitment the Government had made to tackle health inequalities. However, while the health of all groups in England is improving, over the last ten years health inequalities between the social classes had increased by 4% among men, and by 11% among women.

3.7 The Health Committee also said that the most damning criticisms of Government policies it had heard during the inquiry had not been of the policies themselves, but rather of the Government's approach to designing and introducing new policies which made meaningful evaluation impossible. In the Committee's view, simple changes to the design of policies and how they are introduced could make all the difference.

Conclusion

3.8 We are grateful to the Health Committee for its Opinion and we clear the Communication from scrutiny with this short report to the House.

4 EU relations with Mauritania

(31217) 17369/09 COM(09) 670	Draft Council Decision repealing Decision 2009/472/EC of 6 April 2009 and concerning the follow-up to the consultation procedure with the Islamic Republic of Mauritania under Article 96 of the ACP-EC Partnership Agreement
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<i>Legal base</i>	Articles 8, 9 and 96 of the Cotonou Agreement
<i>Department</i>	Foreign and Commonwealth Office
<i>Basis of consideration</i>	Minister's letter of 2 February 2010
<i>Previous Committee Report</i>	HC 5–v (2009–2010), chapter 13 (6 January 2010); also see (30484) 6963/09: HC 19–xi (2008–09), chapter 15 (18 March 2009) and (29940) 12669/08: HC 16–xxx (2007–08), chapter 17 (8 October 2008)
<i>To be discussed in Council</i>	17 January 2010 Foreign Affairs Council
<i>Committee's assessment</i>	Politically important
<i>Committee's decision</i>	Cleared

Background

4.1 The Cotonou Agreement⁹ provides the framework for relations between the EU and 77 countries of Africa, the Caribbean and the Pacific (ACP). It is based on five interdependent pillars:

- a comprehensive political dimension;
- participatory approaches;
- a strengthened focus on poverty reduction;

⁹ See http://ec.europa.eu/development/geographical/cotonouintro_en.cfm for full information on the Cotonou Agreement.

- a new framework for economic and trade cooperation;
- a reform of financial cooperation.

4.2 Its overarching objective is the reduction and eventual eradication of poverty, consistent with sustainable development objectives; and the gradual integration of ACP states into the world economy.

4.3 It was revised in 2005, particularly to incorporate “good governance” provisions. Article 96 provides for consultations between the EU and an ACP State if the ACP State is considered to be in breach of an “essential element” of the agreement (respect for human rights and fundamental freedoms, as set out in Article 9 of the Agreement). If no remedy is found, “appropriate measures” may be taken including, as a last resort, total or partial suspension of the Agreement.

4.4 Mauritania is a signatory. In October 2008 we considered Commission Communication 12669/08 on the opening of consultations with Mauritania under Article 96 of the Agreement.

4.5 Our earlier reports detail the Committee’s consideration hitherto of:

- first, in September 2008, the opening of consultations (in response to a bloodless coup in August 2008 by the Mauritanian military, led by the Chief of the Presidential Guard; he arrested the democratically elected President and Prime Minister, then pronounced himself head of a “High State Council” to govern the country and prepare a presidential election);¹⁰
- then, in March 2009, the ending of those formal consultations and the suspension of most development funds under the 10th EDF (which formalised the situation since the coup, when all new aid was frozen by the EU; the proposed funding programme for 2008–2013 amounted to just over €158 million);¹¹
- most recently, on 6 January 2010, a Council Decision by Member States that accepted that constitutional order had been restored and proposed to lift the Article 96 measures.

4.6 On this last occasion, in his Explanatory Memorandum of 30 December 2009, the Minister of State at the Foreign and Commonwealth Office (Mr Ivan Lewis) described subsequent events as follows:

“After intense negotiations in Dakar with the International Contact Group (UN, African Union, EU, Arab League, US and Francophonie), and with the intervention of Presidents Sarkozy and Wade (Senegal), an accord was subsequently signed between the opposing parties on 4 June 2009, ensuring the return to constitutional order, paving the way for elections in July and the development of an inclusive political dialogue.

10 See headnote: (29940) 12669/08: HC 16–xxx (2007–08), chapter 17 (8 October 2008).

11 See headnote: (30484) 6963/09: HC 19–xi (2008–09), chapter 15 (18 March 2009).

“Elections were held on 18 July as planned. Abdelaziz won with 52% of the vote (he required 51% to win in the first round). It did not take long for the opposition parties to officially contest the outcome. The Constitutional Council declared the result valid on 27 July. Despite the contested result, international observers (including US, African Union, France, Spain, Qatar, Francophonie and Arab League) were generally agreed that the irregularities did not appear to amount to vote rigging or fraud.”

4.7 The Minister went on to comment as follows:

“The proposal to lift Article 96 measures stems from the findings of a joint Swedish Presidency/Commission mission, which visited Mauritania on 3–5 October to assess the follow-up to the Dakar Agreement. While noting that political tensions and structural shortcomings in Mauritania were still evident and would need to be addressed, the mission concluded that the Dakar Agreement and its implementation had resolved the political conflict arising from the August 2008 coup. The opposition had taken part in all phases of implementing the Dakar agreement. There were also opportunities for resumption of inclusive national dialogue, provided it focused on preventing future crises and setting up genuine political dialogue (e.g. on constitutional change to rebalance the powers of the State, and on establishing an electoral code and a permanent independent electoral commission). The continued attention of the international community, including the EU, could play a major role in this respect.

“The UK supports the proposal to lift the Article 96 measures. Whilst concerned with the election irregularities, we are content to normalise relations with Mauritania now that constitutional order has been restored. It is important that the international community support Mauritania’s development; the Sahel region is a key CT concern, and a stable and secure Mauritania would help counter the threat in the area from Al Qaeda in the Islamic Maghreb (A-QM).

“We also support establishing regular and structured (‘enhanced’) political dialogue with Mauritania under Article 8 of the Cotonou Agreement. While enhanced dialogue is normally used as the last step before initiating Article 96 procedures, Cotonou also allows for enhanced dialogue post lifting of Article 96 measures. Whilst constitutional order has been restored, considerable support is required to strengthen areas such as good governance, human rights and the rule of law. Article 8 dialogue provides a framework for such support and for promoting inclusive national dialogue. It also sends a clear message to Mauritania, and other countries in Africa, that democratic constitutional order is an important principle for the EU.”

Our assessment

4.8 We concluded that it was for others to judge whether this is the right approach; as was so often the case, only time would tell. But we also noted that — bearing in mind that what had occurred at the outset had overturned what had been described earlier as an exemplary democratic transition, painstakingly undertaken in 2005–07 with considerable political and financial support from the international community and the EU in particular — doubts were bound to be raised about the extent to which Mauritania, and other countries in Africa, would see this outcome as the “clear message” that the Minister envisaged.

4.9 In clearing the document, we noted the fact that, despite a request last March that the Committee be alerted to any proposals to change the level of provision under the 10th EDF prior to the conclusion of the Article 96 process and the full restoration of the *status quo ante*, it had heard nothing from the Minister about the fact that, while technically still under Article 96 measures, “development funding has gradually been restored as benchmarks towards the return of constitutional order set out in Council Decision 2009/472/EC have been met.” We accordingly asked the Minister to explain why the Committee’s request had apparently been overlooked.

The Minister’s letter of 2 February 2010

4.10 In his letter of 2 February 2010, the Minister for Europe at the Foreign and Commonwealth Office (Chris Bryant) says that the 10th EDF envelope was not discussed during these proceedings and there has been no change in the level of funding provision.

4.11 He continues as follows:

“At this time it was also agreed that the Commission would only release the funding agreed under the 10th EDF envelope once full constitutional order had been restored, in accordance with the fourth paragraph of Article 96(2)(a) of the ACP-EC Agreement. The restoration of funding under the 8th and 9th EDF envelopes occurred between April 2009, when the formal suspension of development funding was agreed, and Oct 2009, as some benchmarks towards democracy were met. Given that releasing new funding under the 10th EDF envelope required Member State agreement that full constitutional order had been restored, the Commission carried out a mission to Mauritania in Oct 2009 to assess the political situation.

“Based on the mission’s findings Member States agreed that constitutional order had been restored, although it was noted that political tensions remained and support was still required to strengthen areas such as good governance, human rights, rule of law and an inclusive political dialogue.

“The Commission has yet to release funds under the 10th EDF, although I note the interest of the Committee and will keep you updated on developments.”

Conclusion

4.12 **We are grateful to the Minister for clarifying the situation. We welcome his offer to keep us updated on developments and — given that key areas such as good governance, human rights, rule of law and an inclusive political dialogue still fall short of what is required, which presumably led to the judgement that full constitutional order had not yet been restored — ask that he informs us prior to any proposal to release funds under the 10th EDF.**

4.13 **In the meantime, we are drawing this further information to the attention of the House because of the widespread interest in development issues in Africa.**

5 Stability and Growth Pact: Greece

(a) (31310) 6131/10 COM(10) 26	Draft Council Decision making public the Recommendation with a view to ending the inconsistency with the broad guidelines of the economic policies in Greece and removing the risk of jeopardising the proper functioning of economic and monetary union
(b) (31331) 6560/10 —	Council Opinion on the updated Stability Programme of Greece, 2010–2013
(c) (31333) 6145/10 —	Council Recommendation with a view to ending the inconsistency with the broad guidelines of the economic policies in Greece and removing the risk of jeopardising the proper functioning of economic and monetary union
(d) (31334) 6147/10 —	Council Decision giving notice to Greece to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit

<i>Legal base</i>	(a) and (c) Article 121(4) TFEU; —; QMV of eurozone members less Greece (b) Article 126(5) TFEU; —; QMV of eurozone members less Greece (d) Article 126(9) TFEU; —; QMV of eurozone members less Greece
<i>Documents originated</i>	(a) 3 February 2010 (b)-(d) —
<i>Deposited in Parliament</i>	(a) 10 February 2010 (b) 18 February 2010 (c) and (d) 19 February 2010
<i>Department</i>	HM Treasury
<i>Basis of consideration</i>	EM of 4 March 2010
<i>Previous Committee Report</i>	None
<i>Discussed in Council</i>	16 February 2010
<i>Committee's assessment</i>	Politically important
<i>Committee's decision</i>	Cleared

Background

5.1 The Stability and Growth Pact adopted by the Amsterdam European Council in June 1997 emphasised the obligation of Member States to avoid excessive government deficits, defined as the ratio of a planned or actual deficit to gross domestic product (GDP) at

market prices in excess of a “reference value” of 3%.¹² Each year the Council of Economic and Finance Ministers (ECOFIN) issues an Opinion on the updated stability or convergence programme of each Member State.¹³ These Opinions, which are not binding on Member States, are based on a recommendation from the Commission. The economic content of the programmes is assessed with reference to the Commission’s current economic forecasts. If a Member State’s programme is found wanting, it may be invited by ECOFIN, in a Recommendation, to make adjustments to its economic policies, though such Recommendations are likewise not binding on Member States. This whole procedure is essentially the Pact’s preventative arm.

5.2 On the other hand, the Pact also endorsed a dissuasive or corrective arm involving action in cases of an excessive government deficit — the excessive deficit procedure provided for in Article 126 TFEU (formerly Article 104 EC) and the relevant Protocol. This procedure consists of Commission reports followed by a stepped series of Council Recommendations (the final two steps do not apply to non-members of the eurozone). Failure to comply with the final stage of Recommendations allows ECOFIN to require publication of additional information by the Member State concerned before issuing bonds and securities, to invite the European Investment Bank to reconsider its lending policy for the Member State concerned, to require a non-interest-bearing deposit from the Member State concerned whilst its deficit remains uncorrected, or to impose appropriate fines on the Member State concerned.

5.3 In April 2009 the Council decided that an excessive deficit existed in Greece and issued recommendations to correct the situation by 2010 at the latest. The Council set a deadline of 27 October 2009 for effective action to be taken. At the time, the Commission had also expressed a general reservation on the quality of the statistical data reported by Greece, due to ‘significant uncertainties’ over the figures that had been provided. Following subsequent substantial revisions to Greece’s fiscal deficit and debt statistics (which saw the deficit revised from 6% to 12.7% of GDP for 2009), the Council established in December 2009 that no effective action had been taken in response to its April 2009 Recommendation.

The documents

5.4 Document (b) is the annual Council Opinion on the updated Stability Programme of Greece for the period 2010–2013, which was released on 15 January 2010. The programme foresees a 4% point reduction in the deficit, from 12.7% of GDP to 8.7% in 2010, with a view to reaching 2.8% of GDP by 2012. The general view expressed in the Council Opinion is that the programme displays an appropriate degree of ambition given the size of consolidation needed and is supportive of the Greek Government’s efforts and commitment to date to do whatever is necessary to ensure that the ambitious targets set in the stability programme are met. Further comment in the Opinion:

12 This obligation does not apply to Member States, including the UK, whilst they remain outside the eurozone, but they are required to endeavour to avoid excessive deficits.

13 The 16 Member States (Austria, Belgium, Cyprus, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain) that have adopted the euro have Stability Programmes, whereas the other 11 Member States (including the UK) produce Convergence Programmes.

- expresses, nevertheless, strong reservations about the programme’s projected budgetary outcomes, which are assessed to be “subject to substantial downside risks” — for 2010 risks in the implementation of the revised 2010 budgetary target are seen to be large due to favourable growth assumptions and “optimistic” projections of the expected gains from the fight against tax evasion and delays to implementation likewise remain a key risk;
- lists a number of risks to implementation over the medium and long terms;
- cites concerns, for 2011 onwards, over the lack of detailed information on the measures to support the envisaged consolidation, particularly on the expenditure side;
- underlines risks emerging from the lack of a medium-term budgetary framework to ensure time-consistent fiscal planning — a feature which has so far contributed to the country’s “poor track record of budgetary outcomes”;
- assesses that the Greek public finances are “at high risk in relation to their long-term sustainability” in view of “the very large projected increase in age-related public expenditure and the fact that measures taken to date in order to address this issue have been insufficient in tackling the problem”.

5.5 The Opinion concludes, on the whole, that, while the programme provides “a wide array of measures for tackling the country’s imbalances”, potential delays to this programme and the favourable macroeconomic assumption on which the budgetary strategy is based remain significant risks. It therefore calls on the Greek authorities to swiftly implement the measures planned, but recommends that they be prepared to adopt further measures if necessary, coupled with bold structural reforms to address the underlying competitiveness losses and widening external imbalances.

5.6 Document (d) is a Council Decision giving notice to Greece to take measures for a deficit reduction judged necessary in order to remedy the situation of excessive deficit — this follows on from the Council’s December 2009 finding on the inadequacy of Greece’s earlier responses. The adjustment required to bring the fiscal deficit to below 3% of GDP by 2012 would include an annual structural adjustment of at least 3.50% of GDP in 2010 and 2011 and of at least 2.50% of GDP in 2012. Towards this end, the Council outlines a number of consolidation measures to be adopted by the Greek authorities, most of which are included in the updated Stability Programme, discussed in document (b). The Council distinguishes four types of measures to be taken — “urgent measures”, “supporting measures”, “other measures to be adopted by 2010” and “other measures to be adopted by 2012”.

5.7 The Council imposes an implementation deadline of 15 May 2010 on a number of urgent measures. On the expenditure side these include:

- moving 10% of budgetary appropriations for government departments into a contingency reserve, pending a reallocation of appropriations;
- reduction of the wage bill, including freezing public sector nominal wages and cutting special allowances paid to civil servants; and

- adopting nominal cuts in transfers paid as social security, including through measures to restrict the indexation of benefits and entitlements.

On the revenue side are:

- implementation of a progressive tax scale;
- abrogation of all exemptions and autonomous taxation provisions in the tax system;
- introduce permanent levies on building and increase tax rates on real estate, tobacco, alcohol and fuel excise duties; and
- spell out in detail and implement planned tax system reforms.

5.8 Given the risks related to the planned fiscal consolidation path, as outlined in the Opinion on the Stability Programme, document (b), the Council also asks Greece to “stand ready” to adopt additional “supportive” measures in order to ensure that the budgetary target for 2010 is met. Such additional measures should focus on expenditure cuts (that is, cutting further current and capital expenditure), but should also include revenue-increasing measures (for example, increasing VAT revenue, establishing excise duties on luxury goods, further increasing excise duties on energy products). The first assessment of the extent to which risks materialise will be undertaken on the occasion of a first report on 16 March 2010.

5.9 Other measures that are to be adopted by the end of 2010 are listed in the Council Decision. On the expenditure side these are:

- adoption of necessary reforms to pension and healthcare systems;
- reducing public sector employment in the general government; and
- reform of the wage payment system for direct public administration employees.

On the revenue side these are enhancing the fight against tax evasion and fraud and modernising the system of tax administration.

5.10 Measures for reforming the Greek fiscal framework are also outlined by the Council. These include seeking more detail on the measures to comply with the fiscal consolidation targets for 2011 onwards, reinforcing the position of the Ministry of Finance and reforming the General Accounting Office. The Greek authorities are also asked to:

- adopt a medium-term budgetary framework and announce additional permanent expenditure reducing measures;
- enhance the fight against corruption in public administration;
- take steps to avoid a reduction in the average maturity of public debt; and
- pursue the efforts to control factors, other than net borrowing, which contribute to changes in public debt levels.

5.11 Other fiscal measures that are to be adopted by 2012, on the expenditure side, include focusing on implementation of permanent adjustment measures, specifically cuts aimed at permanent savings in government consumption expenditure. On the revenue side the Greek authorities are required to continue to implement the reform of tax administration system and to use any potential revenues for deficit reduction. On managing the fiscal framework the Greek authorities are asked to further strengthen the institutional framework for providing reliable budgetary forecasts and avoid using ‘one-off’ measures for deficit reduction, instead adopting permanent expenditure-reducing measures.

5.12 The Council Decision requires Greece to adopt, by 15 May 2010, legislation that makes it compulsory to provide public reports on budgetary execution on a monthly basis and enforcing the current obligations for social security funds and hospitals to publish annual official accounts and balance sheets. Greece is also expected to further pursue efforts to improve the collection and processing of general government data, notably by enhancing control mechanisms of statistical authorities and the General Accounting Office. This should also include cooperation with the Commission (Eurostat) to agree an action plan for tackling statistical and institutional deficiencies and receiving the appropriate technical assistance.

5.13 The Council requires the Greek authorities to report to it and the Commission, by 16 March 2010, spelling out the implementation calendar for the measures to be established as “it appears strictly necessary to restore the situation of public finances in Greece in a credible and sustainable manner”. By 15 May 2010 the Greek authorities are expected to submit a further report outlining the policy measures to comply with the Decision. Further reports should be submitted on a quarterly basis.

5.14 In accordance with Article 121(4) TFEU, which allows the Council to adopt a Recommendation with a view to ending inconsistency with the broad guidelines of the economic policies and removing the risk of jeopardising the proper functioning the economic and monetary union, it has adopted such a Recommendation for Greece, as in document (c). The Council judges that the macroeconomic and budgetary deterioration is not just a consequence of the global economic and financial crisis, but also, and in larger part, a result of national factors that have developed over the longer term. Explained by inadequate national policies with respect to the conduct of fiscal policy, the inefficiency of public administration and lack of structural reform, these factors include a “worsening of the net lending position of the Greek economy and high and persistent external imbalances, mirroring large competitiveness losses and a marked deterioration of the fiscal position”. On this basis, the Council concludes that the current situation:

- poses major challenges for the long-term sustainability of the Greek economy;
- may have negative spill-overs on other euro-area members, as evidenced by movements in the financial spreads of a number of Member States; and
- risks jeopardising the proper functioning of the economic and monetary union.

5.15 The Council, reflecting the “deep structural problems in the Greek economy in terms of fiscal, labour and product market issues”, recommends that Greece should:

- design and implement, starting as soon as possible in 2010, a bold and comprehensive structural reforms package, which goes beyond the measures outlined in the current update of the Stability Programme, discussed in document (b);
- reduce the public wage bill, streamline the wage payment system for direct public administration employees and enhance the flexibility of the wage-setting system by promoting more decentralised wage bargaining;
- proceed with a timely and comprehensive pension reform, aligning the statutory retirement age between men and women and increasing the average retirement age;
- adopt comprehensive labour market reforms supported by increased labour supply and employment;
- focus, in the field of healthcare reforms, on overhauling the excessively fragmented structure of the healthcare system and its governance, modernisation of administration and accounting and procurement procedures;
- enhance the efficiency of public administration by developing, approving and implementing strategic reform needed to ensure a significant improvement in the transparency and effectiveness of public administration, including consolidation of the number of municipalities and local councils, so inducing sizeable expenditure savings;
- take measures to ensure that public procurement is carried out in a cost-effective, transparent and competitive way;
- make efforts to improve the functioning of the product market and business environment, including achieving the goals of the better regulation agenda making the process for starting a business easier and streamlining the regulatory system;
- adopt and implement a clear and action-oriented competition policy framework, implement the rules of the Services Directive and take effective measures to increase competition in professional services;
- promote and monitor deregulation in the transport and energy sectors and ease regulation in the retail sector;
- take measures, in the interest of supporting productivity and employment growth, to fight undeclared work, review labour market regulations, seek targeted reductions in the cost of labour and enact reforms in the education system to improve the level of skill in the labour force;
- take measures to improve the efficiency and pace of absorption of EU Structural Funds — in doing so Greece should pay particular attention to the swift and efficient implementation of the operational programmes on ‘Administrative Reform’ and ‘Digital Convergence’, as these can support essential reforms in public administration; and

- report on all these measures in the context of quarterly reports established by the Council's Decision on ending the situation of excessive deficit, document (d).

5.16 Document (a) is a Commission proposal for a Council Decision to make public the Council's Recommendation, document (c). In support of the draft Decision the Commission says that making the Recommendation should facilitate the coordination of economic policies of Member States and the EU and should contribute to a better understanding among economic agents, facilitating the implementation of the recommended measures. The bulk of the document is an Explanatory Memorandum that:

- outlines the economic situation in Greece, including recent macroeconomic developments and the financial sector;
- further summarises the details from the current update of the Greek Stability Programme, as discussed in document (b);
- discusses EU surveillance in Greece at the present juncture;
- says that as Greece was in the situation of combining a fiscal crisis with broader macroeconomic imbalances, which are rooted in deep-seated structural problems the management of this situation requires the deployment of the instruments of economic and budgetary surveillance as foreseen by the TFEU and relevant secondary legislation — in this case documents (b)-(d);
- details the need for fiscal adjustment in 2010 and beyond, including the extension of the deadline for correction of excessive deficit; and
- summarises the recommended actions for the Council, that is documents (b)-(d); and
- recommends making public document (c).

The Government's view

5.17 The Economic Secretary to the Treasury (Ian Pearson) says that there are no direct policy implications for the UK that arise from these documents (and on which the Government did not have a vote). But he comments that:

- the Government supports the appropriate and timely implementation of the Stability and Growth Pact as a means to manage the course of fiscal consolidation in Member States toward a level of sustainable public finances;
- there is a clear need to address more specific recommendations in this situation and the Government supports the process and Recommendations that have been applied; and
- it is now vital that the Greek authorities fully and swiftly implement the Recommendations that have been provided by the Council.

Conclusion

5.18 Although we clear these documents from scrutiny, they are clearly very informative about the present situation with Greece and the EU's requirements of the Greek authorities and, as such we draw them to the attention of the House.

6 European Globalisation Adjustment Fund

(a) (31348) 6748/10 COM(10) 58	Draft Decision on the mobilisation of the European Globalisation Adjustment Fund for EGF/2009/016 LT/Manufacture of furniture submitted by Lithuania
(b) (31349) 6749/10 SEC(10) 53	Commission Communication on application EGF/2009/016 LT/Manufacture of furniture received from Lithuania for a financial contribution from the European Globalisation Adjustment Fund
(c) (31350) 6750/10 COM(10) 56	Draft Decision on the mobilisation of the European Globalisation Adjustment Fund for EGF/2009/018 LT/Manufacture of wearing apparel submitted by Lithuania
(d) (31351) 6751/10 SEC(10) 61	Commission Communication on application EGF/2009/018 LT/Manufacture of wearing apparel received from Lithuania for a financial contribution from the European Globalisation Adjustment Fund

<i>Legal base</i>	(a) and (c) Articles 175 and 178 TFEU; co-decision; QMV (b) and (d) —
<i>Documents originated</i>	(a) and (c) 19 February 2010 (b) 26 January 2010 (d) 29 January 2010
<i>Deposited in Parliament</i>	25 February 2010
<i>Department</i>	HM Treasury
<i>Basis of consideration</i>	Two EMs of 4 March 2010
<i>Previous Committee Report</i>	None
<i>To be discussed in Council</i>	22 March 2010
<i>Committee's assessment</i>	Politically important
<i>Committee's decision</i>	Cleared

Background

6.1 Regulation (EC) No 1927/2006 established a European Globalisation Adjustment Fund (EGF) designed to counterbalance negative impacts of globalisation. Calls on the fund by Member States can be made where major structural changes in world trade patterns lead to serious economic disruption, notably a substantial increase of imports into the Community or a rapid decline in Community market share in a given sector or a delocalisation to third countries. Applications must meet a number of criteria related to demonstrating a link between world trade patterns and redundancies, to the number, location and impact of redundancies and to avoidance of undermining existing national policies or overlapping with other Community funding streams. Regulation (EC) No 546/2009 of June 2009 extended the scope to include negative impacts from the current economic downturn and to lower, in certain circumstances, the threshold for applications. The new criteria apply to applications received after 1 May 2009.

The documents

6.2 The draft Decisions, documents (a) and (c), are to approve applications from Lithuania for assistance from the EGF. The Commission Communications, documents (b) and (d), describe the detail of each application. The first case, documents (a) and (c), concerns an application from Lithuania, Case EGF/2009/016 LT/Manufacture of furniture, relating to 1,469 redundancies in 49 enterprises between 16 October 2008 and 15 July 2009, of whom 636 are targeted for assistance. It argues that:

- these redundancies are linked to the financial and economic crisis, because the crisis has had a serious detrimental impact on domestic consumer expenditure and in the industry's export markets, as well as severely reducing the industry's access to financial credits;
- in each of the quarters of the reference period the volume of furniture production in Lithuania had decreased in comparison with the previous year — by 5.90% in the fourth quarter of 2008, 17.33% in the first quarter of 2009 and 7.23% in the second quarter of 2009, with redundancies as a consequence;
- the Lithuanian furniture industry exported over 50% of its production in 2008, but exports dropped by 20.10% in value terms during the first half of 2009;
- the slow-down in the construction industry, domestically and abroad, has had a direct effect on the sales of furniture;
- manufacture of furniture at EU level has declined by 19.60% in the first quarter of 2009 and 18.20% in April 2009;
- since the furniture manufacturing industry was largely located in rural districts with unemployment levels higher than the national average, the redundancies will exacerbate the labour market problems of these districts;
- at national level unemployment has risen sharply since the start of the economic and financial crisis;

- GDP has contracted during the three quarters covered by the reference period of this application — Eurostat data show that Lithuanian GDP in the second quarter of 2009 was 20.20% lower than that of a year earlier; and
- redundancies in the furniture manufacturing industry amount to 0.10% of the entire employed workforce and approximately 10% of the numbers employed in this sector at the beginning of the crisis, adding to a situation that is already causing social and budgetary difficulties in Lithuania.

6.3 The Commission judges that the application falls within the scope of the Regulation, that is that a direct and demonstrable link has been provided that these redundancies result from the global financial and economic crisis. It therefore proposes that the application be accepted with a proposed contribution from the EGF is €662,088 (£591,046), for a coordinated package of eligible personalised services aimed at re-integrating workers into the labour market. Lithuania has confirmed that this contribution would not replace measures that are the responsibility of companies, that the actions envisaged are not receiving funding from other Community financial instruments and that they would provide support for individual workers themselves.

6.4 The second case, documents (b) and (d), concerns an application, Case EGF/2009/018 LT/Manufacture of wearing apparel, relating to 1,154 redundancies in 45 enterprises between 16 October 2008 and 15 July 2009, all operating in the wearing apparel industry — 491 redundant workers are targeted for assistance. Lithuania argues that:

- the global economic and financial crisis has had a serious impact on demand for textiles and clothing in its domestic and export markets;
- the EU as a whole experienced declines in textile production in the second half of 2008 and more accelerated declines in 2009;
- production in the clothing sector was 20% lower in the first quarter of 2009, compared to the same quarter in 2008;
- for April 2009 the reduction in production continued to be over 20%;
- the trade deficit in the third quarter of 2009 showed a sharp increase of 19%, mainly due to a strong reduction in exports to all trade partners, particularly to the most important ones, such as the USA, Japan, Russia and Turkey — those countries represent 45% of the total EU exports of textiles and clothing products;
- this effect was seen strongly in Lithuania where the change in added value in the wearing apparel industry was -5.50% in 2007, -8.20% in 2008 and -16.70% in the first quarter of 2009;
- the entire territory of Lithuania is affected by the redundancies in the wearing apparel industry;
- unemployment in Lithuania is amongst the highest in the EU and has risen sharply since the start of the economic and financial crisis, increasing by 10.90% in a 12-month period to reach 16.70% in July 2009;

- the wearing apparel industry lost 21.10% of its jobs in Lithuania between the second half of 2007 and the second half of 2008 alone; and
- the economic crisis has exacerbated this, and because of the concentration of women in this sector, has contributed to a doubling of the female rate of unemployment in Lithuania during the year to July 2009.

6.5 The Commission judges that the application falls within the scope of the Regulation, that is that a direct and demonstrable link has been provided that these redundancies result from the global financial and economic crisis. It therefore proposes that the application be accepted with a proposed contribution from the EGF is €523,481 (£467,311), for a coordinated package of eligible personalised services (representing 65% of the total cost). Lithuania has confirmed that this contribution would not replace measures that are the responsibility of companies, that the actions envisaged are not receiving funding from other Community financial instruments and that they would provide support for individual workers themselves.

The Government's view

6.6 The Economic Secretary to the Treasury (Ian Pearson) says that, as with all applications to the EGF, the Government will seek to ensure that the intervention and eligible actions criteria set out in EGF Regulation have been respected in these applications ahead of the Council reaching a final decision on them. On the financial implications the Minister says that:

- the EGF is financed from in-year transfers from areas of expected low implementation within the EU Budget and transfer proposals have been presented to the Budgetary Authority (the Council and the European Parliament), drawing on funds expected to be unspent in the 2010 appropriations for the European Social Fund;
- unspent funds in one year's Budget are used to finance the following year's, thus reducing the amount of funding required from Member States in that year;
- if the Budgetary Authority agrees to these applications, and any subsequent transfer, the amount required from Member States to fund the 2011 EU Budget would be correspondingly higher;
- taking these cases in isolation the net cost to the UK over the 2010 and 2011 period would be around €89,978 (£80,323) for the first application and around €71,141 (£63,508) for the second one; and
- if approved by the Budgetary Authority, based on previous agreed applications these current applications would bring total expenditure under the EGF since its implementation in January 2007 to €128,757,710 (£114,942,008).

Conclusion

6.7 Whilst there are no questions we wish to ask on them, in clearing these documents we draw them to the attention of the House as further examples of how the EGF is being used.

7 Growth and Stability Pact: excessive deficit procedure

(a) (31359) 5902/10 —	Council Recommendation with a view to bringing to an end to the situation of an excessive government deficit
(b) (31360) 5903/10 —	Council Recommendation with a view to bringing to an end to the situation of an excessive government deficit
(c) (31361) 6231/10 —	Council Recommendation with a view to bringing to an end to the situation of an excessive government deficit

<i>Legal base</i>	Article 126(7); —; QMV of eurozone Member States less the one concerned
<i>Documents originated</i>	—
<i>Deposited in Parliament</i>	1 March 2010
<i>Department</i>	HM Treasury
<i>Basis of consideration</i>	EM of 6 March 2010
<i>Previous Committee Report</i>	None
<i>Discussed in Council</i>	16 February 2010
<i>Committee's assessment</i>	Politically important
<i>Committee's decision</i>	Cleared

Background

7.1 The Stability and Growth Pact adopted by the Amsterdam European Council in June 1997 emphasised the obligation of Member States to avoid excessive government deficits, defined as the ratio of a planned or actual deficit to gross domestic product (GDP) at market prices in excess of a “reference value” of 3%.¹⁴ Each year the Council of Economic and Finance Ministers (ECOFIN) issues an Opinion on the updated stability or

¹⁴ This obligation does not apply to Member States, including the UK, whilst they remain outside the eurozone, but they are required to endeavour to avoid excessive deficits.

convergence programme of each Member State.¹⁵ These Opinions, which are not binding on Member States, are based on a recommendation from the Commission. The economic content of the programmes is assessed with reference to the Commission's current economic forecasts. If a Member State's programme is found wanting, it may be invited by ECOFIN, in a Recommendation, to make adjustments to its economic policies, though such Recommendations are likewise not binding on Member States. This whole procedure is essentially the Pact's preventative arm.

7.2 On the other hand, the Pact also endorsed a dissuasive or corrective arm involving action in cases of an excessive government deficit — the excessive deficit procedure provided for in Article 126 TFEU (formerly Article 104 EC) and the relevant Protocol. This procedure consists of Commission reports followed by a stepped series of Council Recommendations (the final two steps do not apply to non-members of the eurozone). Failure to comply with the final stage of Recommendations allows ECOFIN to require publication of additional information by the Member State concerned before issuing bonds and securities, to invite the European Investment Bank to reconsider its lending policy for the Member State concerned, to require a non-interest-bearing deposit from the Member State concerned whilst its deficit remains uncorrected, or to impose appropriate fines on the Member State concerned.

7.3 On 7 July 2009 the Council issued Recommendations to Malta, Lithuania and Romania with a view to ending the excessive government deficits of these Member States. It recommended Malta to correct its excessive deficit by 2010 at the latest, and to bring the public debt back on a declining path towards the 60% of GDP reference value. It recommended to Lithuania to correct its excessive deficit by 2011 at the latest. And it recommended to Romania to correct its excessive deficit by 2011 at the latest.¹⁶

The documents

7.4 In the new Recommendation to Malta, document (a), the Council:

- found that unexpected adverse economic events, with major unfavourable consequences for government finances, had occurred;
- referred particularly to a larger than expected decline in real GDP, a larger than expected budgetary impact from the downturn, a much lower intake of indirect taxes and lower employment, with the associated fall of contributions to social security;
- noted that, in response to the Council's recommendations in July 2009, Malta executed the 2009 budget measures as planned — additional measures to support the economy in line with the European Economic Recovery Plan were taken, along with compensatory measures to offset the support measures, including improving tax administration and reducing the number of public sector employees, all

15 The 16 Member States (Austria, Belgium, Cyprus, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain) that have adopted the euro have Stability Programmes, whereas the other 11 Member States (including the UK) produce Convergence Programmes.

16 (30759) 11396/09 (30761) 11398/09 (30765) 11402/09 : see HC 19–xxvi (2008–09), chapter 23 (10 September 2009).

compensatory measures were permanent, whereas only 40% of the support measures under the recovery plan had budgetary effects beyond 2010; and

- concluded, that, overall, Malta could be considered to have taken effective action.

7.5 In the document the Council set, in light of the severe economic downturn in Malta, a new deadline of 2011 at the latest for the correction of the excessive deficit. It recommended Malta to:

- achieve the 2010 deficit target by adopting additional consolidation measures if necessary;
- ensure a 0.75% point GDP fiscal effort in 2011;
- specify the measures necessary to achieve the correction of the excessive deficit in 2011; and
- strengthen the binding nature of the medium-term budgetary framework and improve the monitoring of budget execution.

The Council established a deadline of 16 August 2010 for Malta to take effective action towards correcting the excessive deficit and invited the Maltese authorities to implement reforms to raise the potential growth rate of GDP and to pursue further social security reforms towards addressing risks to the long-term sustainability of the public finances.

7.6 In the new Recommendation to Lithuania, document (b), the Council:

- found that unexpected adverse economic events, with major unfavourable consequences for government finances, had occurred;
- referred particularly to the larger than expected GDP contraction in 2009, the effect on public finances being more than expected and negative revenue surprises having doubled between the Commission's spring and autumn forecasts in 2009;
- noted that, in response to the Council's recommendations in July 2009, Lithuania implemented the fiscal consolidation measures outlined in the 2009 budget, adopted a second supplementary budget later in the year, had a total fiscal adjustment of around 8% of GDP, the 2010 budget included further substantial cuts in expenditure, combined with some tax measures, and completed a "National Accord" with social partners that detailed a number of medium-term structural reforms in addition to the fiscal consolidation measures;
- noted that the net consolidation effort was estimated to be equivalent to around 1.50% of GDP, in line with the Council recommendations — even though some of the measures would expire or could be reversed in the future; and
- concluded, that, overall, Lithuania had taken effective action.

7.7 In the document the Council set, in light of the severe economic downturn in Lithuania, a new deadline of 2012 at the latest for the correction of the excessive deficit. It recommended Lithuania to:

- implement rigorously the corrective measures planned in the 2010 budget, adopting additional measures if necessary to achieve the envisaged consolidation;
- ensure an annual average fiscal effort of at least 2.25% of GDP over 2010 to 2012;
- specify and adopt the additional measures necessary to achieve the correction of the excessive deficit by 2012 and, to this end, adopt and swiftly implement the planned structural reforms;
- enhance the medium-term budgetary framework by strengthening fiscal governance and transparency for example.

The Council established a deadline of 16 August 2010 for Lithuania to take effective action towards correcting the excessive deficit and invited the Lithuanian authorities to implement reforms towards raising the potential growth rate of GDP.

7.8 In the new Recommendation to Romania, document (c), the Council:

- found that unexpected adverse economic events, with major unfavourable consequences for government finances, had occurred;
- referred particularly to a larger than expected contraction of GDP in 2009, lower than projected government revenue and a widening of the budget deficit despite efforts to cut public expenditure;
- noted that, in response to the Council's recommendations in July 2009, public expenditure in Romania was reduced by 1.50% of GDP, the 2010 budget was consistent with a structural effort of 2.0% of GDP, underpinned by appropriate measures, the Romanian authorities had undertaken several steps to improve fiscal governance, revised public compensation legislation and drafted new legislation that aimed to reform the pension system and strengthen the fiscal framework; and
- concluded that, overall, Romania had taken effective action.

7.9 In the document the Council set, in light of the severe economic downturn in Romania, a new deadline of 2012 at the latest for the correction of the excessive deficit. It recommended Romania to:

- implement the fiscal measures for 2010 under the budget law and continue consolidation in 2011 and 2012;
- ensure an average fiscal effort of 1.75% of GDP over the period 2010 to 2012;
- specify the measures necessary to correct the excessive deficit by 2012; and
- continue implementing measures to improve fiscal governance by, in particular, adopting and implementing the Fiscal Responsibility Law.

The Council established a deadline of 16 August 2010 for Romania to take effective action towards correcting the excessive deficit and invited the Romanian authorities to implement reforms towards raising the potential growth rate of GDP, including through enhancing the functioning of the labour market.

The Government's view

7.10 The Economic Secretary to the Treasury (Ian Pearson) says that there are no policy implications for the UK arising from these documents (on which the Government had no vote) and that the Government is in broad agreement with the Council's assessments.

Conclusion

7.11 Whilst we are content to clear these documents, we draw them to the attention of the House for the information they provide about the fiscal situation of these three Member States.

8 Documents not raising questions of sufficient legal or political importance to warrant a substantive report to the House

Department for Business, Innovation and Skills

- (31352)
6769/10
COM(10) 32
- Draft Council Decision on the position to be taken by the Union within the Joint Committee established under the Agreement between the European Coal and Steel Community and the Republic of Turkey on trade in products covered by the Treaty establishing the European Coal and Steel Community, with regard to the amendment of Annex II of Protocol 1 to that Agreement, pursuant to the entry into force of the Harmonised System 2007.
- (31353)
6771/10
COM(10) 34
- Draft Council Decision on the position to be taken by the Union within the Association Council with regard to the amendment of Annex II of Protocol 3 to Decision No 1/98 of the EC-Turkey Association Council of 25 February 1998 on trade regime for agricultural products, concerning the list of working or processing required to be carried out on non-originating materials in order that the product manufactured can obtain originating status, pursuant to the entry into force of the Harmonised System 2007.
- (31362)
5919/10
COM(10) 16
- Draft Council Regulation imposing a definitive anti-dumping duty on imports of certain ring binder mechanisms originating in the People's Republic of China following an expiry review pursuant to Article 11(2) of Regulation (EC) No 384/96.
- (31363)
5939/10
COM(10) 17
- Draft Council Regulation terminating the partial interim review of the anti-dumping measures applicable to imports of certain tungsten electrodes originating in the People's Republic of China.

Department for Environment, Food and Rural Affairs

- (31338)
6305/1/10
+ ADD 1
COM(10) 6
- Commission Report on incentives for EMAS registered organisations in the period 2004-2006.

Foreign and Commonwealth Office

- (31292)
5776/10
+ ADDs 1-5
COM(09) 675
- 26th Annual Commission Report on monitoring the application of Community law (2008).

(31308)
5935/10
COM(09) 686

Draft Council Decision on the Union position to be adopted in the Cooperation Committee established by the Partnership and Cooperation Agreement between the European Communities and their Member States and the Republic of Azerbaijan in relation to the establishment of new subcommittees.

HM Revenue and Customs

(31354)
6781/10
COM(10) 55

Draft Council Decision on a Union position within the EU-Japan Joint Customs Cooperation Committee concerning the mutual recognition of Authorised Economic Operator programmes in the European Union and in Japan.

Formal minutes

Wednesday 10 March 2010

Members present:

Michael Connarty, in the Chair

Mr Adrian Bailey

Mr James Clappison

Mr William Cash

Jim Dobbin

Mr Greg Hands

Keith Hill

1. Scrutiny of Documents

Draft Report, proposed by the Chair, brought up and read.

Ordered, that the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1.1 to 4.13 read and agreed to.

Paragraph 5, Headnote read. Amendment proposed, in line 17, to leave out the word “Cleared” and to insert the words “For debate in European Committee B”—(*Mr William Cash.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3

Mr William Cash

Mr James Clappison

Mr Greg Hands

Noes, 3

Mr Adrian Bailey

Jim Dobbin

Keith Hill

Whereupon the Chair declared himself with the Noes.

Paragraphs 5.1 to 6.7 read and agreed to.

Paragraph 7, Headnote read. Amendment proposed, in line 10, to leave out the word “Cleared” and to insert the words “For debate in European Committee B”—(*Mr William Cash.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3

Mr William Cash

Mr James Clappison

Mr Greg Hands

Noes, 3

Mr Adrian Bailey

Jim Dobbin

Keith Hill

Whereupon the Chair declared himself with the Noes.

Paragraph 7.1 to 8 read and agreed to.

Resolved, That the Report be the Fourteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[Adjourned till Wednesday 17 March at 2.30 pm.]

Standing order and membership

The European Scrutiny Committee is appointed under Standing Order No.143 to examine European Union documents and—

- a) to report its opinion on the legal and political importance of each such document and, where it considers appropriate, to report also on the reasons for its opinion and on any matters of principle, policy or law which may be affected;
- b) to make recommendations for the further consideration of any such document pursuant to Standing Order No. 119 (European Standing Committees); and
- c) to consider any issue arising upon any such document or group of documents, or related matters.

The expression “European Union document” covers —

- i) any proposal under the Community Treaties for legislation by the Council or the Council acting jointly with the European Parliament;
- ii) any document which is published for submission to the European Council, the Council or the European Central Bank;
- iii) any proposal for a common strategy, a joint action or a common position under Title V of the Treaty on European Union which is prepared for submission to the Council or to the European Council;
- iv) any proposal for a common position, framework decision, decision or a convention under Title VI of the Treaty on European Union which is prepared for submission to the Council;
- v) any document (not falling within (ii), (iii) or (iv) above) which is published by one Union institution for or with a view to submission to another Union institution and which does not relate exclusively to consideration of any proposal for legislation;
- vi) any other document relating to European Union matters deposited in the House by a Minister of the Crown.

The Committee’s powers are set out in Standing Order No. 143.

The scrutiny reserve resolution, passed by the House, provides that Ministers should not give agreement to EU proposals which have not been cleared by the European Scrutiny Committee, or on which, when they have been recommended by the Committee for debate, the House has not yet agreed a resolution. The scrutiny reserve resolution is printed with the House’s Standing Orders, which are available at www.parliament.uk.

Current membership

Michael Connarty MP (*Labour, Linlithgow and East Falkirk*) (Chair)
Mr Adrian Bailey MP (*Labour/Co-op, West Bromwich West*)
Mr David S. Borrow MP (*Labour, South Ribble*)
Mr William Cash MP (*Conservative, Stone*)
Mr James Clappison MP (*Conservative, Hertsmere*)
Ms Katy Clark MP (*Labour, North Ayrshire and Arran*)
Jim Dobbin MP (*Labour, Heywood and Middleton*)
Mr Greg Hands MP (*Conservative, Hammersmith and Fulham*)
Mr David Heathcoat-Amory MP (*Conservative, Wells*)
Keith Hill MP (*Labour, Streatham*)
Kelvin Hopkins MP (*Labour, Luton North*)
Mr Lindsay Hoyle MP (*Labour, Chorley*)
Mr Bob Laxton MP (*Labour, Derby North*)
Angus Robertson MP (*SNP, Moray*)
Mr Anthony Steen MP (*Conservative, Totnes*)
Richard Younger-Ross MP (*Liberal Democrat, Teignbridge*)