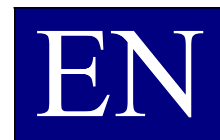
EUROPEAN COUNCIL
THE PRESIDENT



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Speech by President of the European Council Herman Van Rompuy at the European Parliament

On 7-8 February, the Presidents and Prime Ministers of all of our 27 countries reached an agreement at their level, on the Union's Financial Framework for the next seven years.

Compared to the previous (2007-2013) framework, overall spending ceilings have been slightly reduced, but within those ceilings a clear shift of priorities has taken place, with the share of investments for growth and employment rising. This reflects the two key considerations behind our choices: adapting to severe budgetary constraints across Europe, whilst investing for the future.

As is clear from press reports, each of the leaders tried to get the best deal for their own country and citizens. This is perfectly legitimate, as is the fact that some focused more on the concerns of their taxpayers and others on the needs of beneficiaries. The important thing for me is that together we reached agreement and that it was a good deal for Europe as a whole.

We had to find agreement on three parameters: the size, spending priorities and the sources of revenue, aiming at the same time for a modernised, realistic budget, focussed on the most pressing needs.

First, on the size: in the current economic circumstances, the only option was a budget of moderation. Belts are being tightened across Europe, and the Union could not be an exception. Some consider the reduction of 3% in the overall ceiling of commitments to be a setback for Europe. It is not. Just like everywhere else in Europe, much of the focus is on doing more with less money and ensuring that each euro goes where it can make the most impact. More Europe doesn't necessarily mean more money.

P R E S S

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But let me also point out that this reduction in the ceiling in commitments may not even result in a reduction in actual payments in the annual budgets that you adopt. Over the last seven years, payments voted by the Parliament were well below the MFF ceiling, totalling €875bn over the whole period -- much lower than the €908bn foreseen now for the seven years ahead.

In any case, the MFF ceilings were never going to change, neither upwards or downwards, by more than a few percentage points, given the need for unanimity, yet some political commentary has focussed exclusively on that aspect. Back in November, I myself put forward a proposal for an overall commitment ceiling of €970bn, and the final agreement of €960bn was close to this figure -- even though several Member States wanted to go €30bn or more below my proposal.

It is when we look at the content of spending, that there are real changes, and these changes deserve to be welcomed. Their significance is far greater than the small change to the overall ceiling, and merits far more attention.

First, spending on Heading 1a, which includes Research and Innovation, cross-border energy, transport and digital networks, Galileo and Erasmus, rises by 37.3% compared to the previous MFF. Furthermore, this rise is on a steady trend, so that by the final year it will have risen by over 40%. Compared to the current situation, it is a significant improvement. Again, one may regret that not all investment proposals of the Commission were taken on board, but it is misleading to present adjustments to a proposal as "cuts", when in reality we agreed significantly more money for investment in growth than the current Framework.

Second, cohesion spending will be better targeted and have incentives for results, with money set aside for the best-performing. There will be a macro-economic conditionality to increase synergy between cohesion funding and economic governance. Across the board, funding programmes will become simpler and better controlled. There will be a high rate of EU co-financing in cohesion countries with a favourable treatment of VAT, which together will help national budgets in cohesion countries. In allocating structural funds, poorer countries will receive a larger share of cohesion funding. Cohesion is not a backward looking policy, it is investment for the future. In addition, our support to the most deprived people remains intact.

Third, in response to the rise of youth unemployment – which affects overall one in four young Europeans, one in two in some countries – a new initiative of €6bn will contribute to help fight this dramatic situation. It is a striking example of the social dimension of our budget.

Fourth, on agriculture -- a policy area financed almost exclusively at European level -- the focus is increasingly on quality of life in rural areas, greener practices and sustainable food production, which is essential for all of us. Agriculture is not the "past", but thanks to reforms of the Common Agricultural Policy its relative weight in the budget is going down and will continue to do so. By the end of the seven-year period, first pillar of the CAP spending will represent about 27% of the overall budget -- a long way below the 75% it was in the 1970s!

Fifth, expenditure on Security and Citizenship will rise by 27%. This is a field of growing European cooperation and the rise reflects that fact.

Sixth, our external relations have not been neglected. The rise here is 3.3% in real terms. Furthermore, we pledged to meet our commitment to the Millennium Development Goals. The means allowing Europe to engage on vital global issues, such as development aid or climate change, are preserved. The European Development Fund has - contrary to what I have seen reported - not been cut but instead increased.

Seventh, even the heading of Administration sees a small rise. This reflects the needs resulting from enlargement and new tasks conferred to the Union by Member States. It masks a considerable effort that will be made by our staff who will see, as proposed by the Commission, an overall reduction in numbers, an increase in working time and a higher retirement age. But, the EU will continue to have an effective civil service. Some of you had expressed doubts about this: the figures are clear.

Finally, we also spent some time on the sources side, or in EU-language: "own resources". We decided on a lower compensation to Member States for collection costs on duties and levies, thereby increasing the take of traditional own resources. We opened perspectives for possible new own resources, in relation to a new VAT system and the future Financial Transaction Tax. We reached a compromise on the difficult issue of rebates.

Allow me also to say a few words about a specific criticism that has been made about this agreement, namely on the discrepancy between commitments and payments. As a matter of fact, this is very close to what was foreseen in the last MFF, but this time we worked on a scheme to bridge the gap. We agreed on greater flexibility - even to "maximum possible flexibility" - so that there will be adequate payment appropriations to meet legal commitments. The need for this was eloquently described to us by your own President, Martin Schulz, at the beginning of our meeting.

Indeed, I would underline that the points made by the Parliament have been crucial throughout this process, perhaps more than you may have thought. Parliament certainly helped make the case that EU spending is not directly comparable to national spending, focussed as it is on investment potential. Parliament kept alive the issue of own resources, which few Member States had the appetite to consider. Parliament pressed with some success for a new flexibility clause and for a review clause, both of which are mentioned in the European Council conclusions. And Parliament constantly focussed attention on need to shift resources to the new pro-growth policy areas. Even if this has not been done to the extent proposed in the Commission's initial proposal, any comparison of *like with like* - of this MFF compared to the previous one - shows that the increase is substantial. Even on the overall level of expenditure, I recall that when the last MFF was negotiated, the Commission's proposal was reduced by much more: - 13% compared to 8% this time.

Reaching an agreement showed a sense of collective responsibility from Europe's leaders, but we were well aware that a final agreement must still be reached with the Parliament. I reminded my colleagues that all that European Council decided was a mandate - albeit a very strong one - for the ordinary Council and its Presidency to take forward in discussion with the Parliament. In doing so, the European Council fulfilled its role under Article 15 of the Treaty, to *"define the general political directions and priorities"* of the Union. We now hand over to the Council to work with the Parliament for the adoption of the necessary acts.

And let us not forget: beneficiaries count on this new MFF from 1 January 2014. A seven-year investment budget is a strong factor of predictability. Without it, we can only commit money for one year at a time. For scientists, non-governmental organisations and universities, for local and regional authorities across Europe, that would be a major setback. Big projects depend on a longer-term perspective. At a moment when confidence in our economies gradually returns, sealing this seven-year perspective for Europe will be a positive sign.

To avoid any delays and uncertainty, I urge Council and the Parliament to conclude swiftly. The alternative of falling back on the ceilings laid down in the last year of the previous MFF, would lock us into the existing pattern of expenditure, lose the reforms that have been agreed and lead us to deadlock in the renewal of the necessary legal bases. I therefore wish you and the Irish Council Presidency the very best in taking this forward. I am still convinced that we can reach an overall agreement on the MFF. An open discussion, based on facts and figures, will make this possible.

Besides the MFF, our agenda also included a discussion about trade. Trade can potentially help us achieve as much for growth and jobs as all the investments made possible thanks to our MFF deal! The "green light" we gave to start transatlantic trade talks with the USA was immediately followed up by a joint statement by President Obama, myself and President Barroso that both sides will now initiate the internal procedures necessary to launch negotiations on a Transatlantic Trade and Investment Partnership.

We concluded by examining developments in the Arab world. Two years after the start of the "Arab Spring", it was the right moment to take stock of Europe's support to the democratic transitions in the region. Recent events underline once more how these transitions can be challenging. The Union remains engaged.

Finally on Mali: we welcome the decisive action taken by France, supported by other European and African partners. The Union is committed to support this effort by using its full range of instruments to help restore democracy and constitutional order in Mali. The imminent launch of the European Training mission is an essential part of it.

This concludes my report and I await your comments with interest.