



## **TITHE AN OIREACHTAIS**

### **An Comhchoiste um Ghnóthaí an Aontais Eorpaigh**

Tuarascáil maidir leis an gcuairt a thug an chomhthoscaireacht, i gcomhar leis an gComhchoiste um Airgeadas, Caiteachas Poiblí agus Athchóiriú, agus an Taoiseach, ar Chúirt Iniúchóirí na hEorpa agus ar Fhorais eile atá lonnaithe i Lucsamburg

14 – 16 Aibreán 2019

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## **HOUSES OF THE OIREACHTAS**

### **Joint Committee on European Union Affairs**

Report on joint delegation visit with the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach to the European Court of Auditors and other Institutions based in Luxembourg

14 – 16 April 2019

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## 1. BACKGROUND

On 26 November 2018, the Joint Committee on European Union Affairs received an invitation from Mr Tony Murphy, the Irish member of the European Court of Auditors (ECA) to visit the ECA offices in Luxembourg. This invitation followed the Joint Committee's regular engagement with the ECA, including an annual engagement with the Irish member of the ECA. The Joint Committee agreed at its meeting of 5 December 2018 to accept the invitation and organise a delegation visit to Luxembourg.

At its meeting of 23 January 2019, the Joint Committee further discussed the upcoming visit and agreed to form a joint delegation with the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach, which had also received an invitation from the ECA to visit its offices in Luxembourg. At the meeting of 23 January it was also agreed that the visit include engagements with representatives of other European and National institutions based in Luxembourg, in particular the European Investment Bank.

A joint delegation travelled to Luxembourg on 14 April 2019, and held engagements on 15 and 16 April 2019. The Joint Committee on European Union Affairs was represented by Senator Neale Richmond. The Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach was represented by Senator Gerry Horkan, Deputy Michael McGrath and Senator Kieran O'Donnell. The delegation was accompanied by Tom Sheridan, Clerk to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach.

## 2. ENGAGEMENTS

On 15 and 16 April 2019, the delegation held engagements with the European Court of Auditors, the European Investment Bank, the Court of Justice of the EU and the Chamber of Deputies of Luxembourg.

### 2.1. EUROPEAN COURT OF AUDITORS

The delegation met with members of the European Court of Auditors (ECA) on 15 April to discuss the work of ECA. Members of the ECA presented to the delegation on three specific strands of the organisation's work; (i) the ECA's audit of the European Fund For Strategic Investment, (ii) the 2021-2027 Multiannual Financial Framework and (iii) the future of the Common Agricultural Policy (CAP).

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## SESSION 1: OVERVIEW

Mr Tony Murphy, Irish Member of the ECA, welcomed the delegation and stated that the occasion was a valuable opportunity to raise the profile of the ECA, its functions and its activities. He stated that while he was Ireland's nominee to the ECA, his position was not that of representing Ireland. He has responsibility for Chamber II – Investment for Cohesion, Growth and Inclusion (which includes issues such as economic and social cohesion).

The main points discussed were as follows:

- ECA is made up of 28 Members in 5 Chambers (each with 5-6 Members) led by a President. It has 900-1,000 staff in a wide range of disciplines, including 15 from Ireland
- The role of the ECA within the European Institutions
- The ECA report through the Budgetary Control Committee of the European Parliament (CONT)
- Apart from Annual reports on the EU budget, ECA prepares Special Reports on selected topics, e.g. on child poverty, at the ECA's discretion, as well as Opinions, Specific Annual Reports Reviews and Annual Reports on its own activities. The process of preparing such reports, which is governed by Financial Regulations, was also explained. The issue of measuring outputs and impact is a challenge that continues to be considered by ECA in this context
- The ECA's annual report of the EU's budget for 2017 (i.e. €137bn – 2% of total Government spending and 0.9% of EU Gross National Income) was specifically discussed;
  - The focus of the ECA is identifying error
  - The largest share of the Budget was for Natural Resources (€56.6bn), followed by Competitiveness (€14.9bn) and Cohesion (€8bn)
  - Ireland received €1.81bn, compared with a contribution of €2.06bn, €1.5bn was in respect of Sustainable Growth: Natural Resources
    - Ireland has one of the highest rates of absorption of EU funding
    - Ireland is likely to continue to be a net contributor in future
  - The level of irregularities continued to show a decrease.
- Reference was also made to the ECA's recent Ireland audit publications (Broadband, PPP and Youth Unemployment) and to other relevant recent Reports (e.g. CAP and Rural Development) and to upcoming publications (e.g. child poverty)

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## BREXIT

- This has not been a huge issue of interest for the ECA, but it is following developments
- ECA has established a Task Force with representatives of each Chamber, and coordinated by Chamber 5

- ECA has prepared a Guidance Note on how to take account of Brexit in its audit and review work
- ECA audit rights will continue to apply after the transition period in relation to EU spending in the UK under the 2014-2020 MFF.

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## SESSION 2: ECA AUDIT OF THE EUROPEAN FUND FOR STRATEGIC INVESTMENT (EFSI)

Mr Leo Brincat, Member of the ECA for Malta, presented to the delegation on the ECA audit of the European Fund for Strategic Investment (EFSI). Mr Brincat is a member of ECA Chamber 3- External action, security and justice.

The main points discussed were as follows:

- EFSI was established;
  - in 2015 as part of the Investment Plan for Europe
  - within European Investment Bank (EIB) and governed by a Steering Board comprised of EIB and European Commission
  - with an EU budget guarantee (€16bn) and EIB funding (€5bn) with the aim to mobilise an additional €315bn
- While total approved EFSI funding reached originally projected amounts, the amount of EIB's higher risk financing was less than expected; there is potential for an increase of such financing
- EFSI partly replaced funding from other EU/EIB financial instruments, e.g. in the transport and energy sectors. There is need for the European Commission and the ECA to work to avoid this "overlap". Overlaps also occurred with Member State's own financing and private sector financing. Hence, EFSI was deployed to projects that could have been financed from other sources
- While EFSI achieved additionality in overall terms, the extent of additionality was less in relation to certain classes of project types. Furthermore, estimates overstated the amount of investment mobilised and the multiplier effects of EFSI
- EFSI did not achieve a proportionate spread among all Member States: a disproportionately high amount of financing operations was achieved in a small number of the bigger (i.e. EU 15-member) Member States;
  - This appeared to occur whether a strong national development bank exists to exploit EFSI
  - EFSI is to respond to this issue
- The ECA also concluded that;

- financial instruments such as EFSI must be designed and tailored carefully for their intended purpose
- such instruments must avoid unnecessary complexity
- financial instruments are more challenging in terms of governance and accountability than is the case for grants
- The ECA noted that it does not perform the audit function for the EIB, though it does audit EIB operations co-financed by the EU Budget. The ECA has a similarly constrained role in relation to the ECB

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### SESSION 3: 2021-2017 MULTIANNUAL FINANCIAL FRAMEWORK (MFF)

Mr Mihails Kozlovs, Member of the ECA for Latvia, presented to the delegation on the next Multiannual Financial Framework (MFF). Mr Kozlovs is a member of ECA Chamber IV- Regulation of markets and competitive economy.

- Process:
  - The MFF process has become a vehicle to shape the EU's objectives, but it should be the other way around; policy should dictate funding. The EU should first identify its priorities
  - The Commission has done some good work in carrying out spending reviews in advance of the MFF process
- Timing:
  - There have been delays in the commencement of flows of funding under the current MFF (2014 to 2020) – typically such flows would have commenced in 2017
  - The flows of financing can cause macro-economic issues, e.g. inflation, in Member States
  - There is a need for a greater smoothing of funding flows, so as to facilitate better national planning
- Size:
  - Some major EU policy areas have little if any funding
  - The ECA consider that the overall EU budget is perhaps too small vis a vis its policies and priorities
- Principles (that should be in the budget):
  - The need to achieve value-added (which should be measurable and comparable). The ECA, in its special report on good and poor examples in this regard, has highlighted (for example) EU assisted infrastructure that competes with other such infrastructure
  - The MFF should be more flexible and responsive to needs and challenges
  - The need for greater accountability

- The need to do more for less
- EU Revenue:
  - The MFF has new proposals for EU “own resources”, including
    - Consolidated Corporate Tax Base (CCTB)
    - Emissions trading system
    - Plastic waste generation
- The ECA believes that there is uncertainty in relation to the potential of these, how substantial they could be (in view of varying estimates), how sustainable they will be, and their reliability, particularly in the years immediately ahead
- The ECA is anxious to clarify its mandate (including its audit rights) in relation to the EIB and the ECB. These bodies have their own auditors, but the ECA believe that audit gaps exist
- There was some discussion on the issue of the uncertainty and delay in relation to the impact of Brexit on the MFF, and how Brexit will affect the decision-making process relating to the MFF

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#### SESSION 4: FUTURE OF THE COMMON AGRICULTURAL POLICY (CAP)

Mr João Figueiredo, Member of the ECA for Portugal, presented to the delegation on the Common Agricultural Policy (CAP). Mr Figueiredo is a member of ECA Chamber I- Sustainable use of natural resources.

- By way of introductory comments, Mr Figueiredo referred to the complexity of CAP and agriculture within the EU. It is the oldest policy (i.e. it is Treaty based) – for which we have most experience. There are contradictory influences affecting it – farmers, consumers, the agri-food sector, and the environment. The ECA has produced both a Briefing Paper and an Opinion on the future of CAP
- In view of a broad range of changes – economic, social changes, environmental - (including the number of farmers, size of farms, farm incomes, demographic profile of farmers), a longer term vision for EU agriculture is needed
- While overall CAP expenditure has remained fairly constant over the last decade, the composition of expenditure has changed, including the introduction of “Greening” expenditure and a reduction in Decoupled Direct Aid since 2016
- In overall terms, a reduction in the number of farms and the numbers employed on them, along with an increase in farm size has led to increased earnings for each such person employed.
- The CAP post 2020 proposal has 3 legislative components – CAP Strategic Plan Regulation, a Horizontal Regulation, and a CMO regulation
- The issues raised by the ECA in its analysis of the proposed new CAP are;



- the lack of a clear long-term vision for EU agriculture
- the lack of strong economic justification and evidence for retaining the direct payments, market measures and rural development elements of CAP
- that progress on environmental and climate issues will depend on Member State choices and European Commission assessments
- lack of clarity in relation to the value-added generated by the proposed EU expenditure
- some EU funding will be allocated not on the basis of EU-wide assessments and value-added criteria, but on the Member States' own assessments
- proposals to cap maximum direct payments and redistribute them will be limited by the proposed treatment of salary costs
- the delivery model of CAP will impose roles at both EU and MS, with the latter preparing a CAP strategic plan, carrying out implementation and reporting, and assuring the delivery (i.e. Subsidiarity)
- the proposals do not contain required elements for an effective performance system, including clear, specific and measurable EU objectives, accompanying measures and performance indicators
- despite the reduction from 5 to 3 regulations, the proposal will still be complex to implement
- the proposal has a weakened accountability framework in that the European Commission will be unable to verify that EU expenditure respects EU requirements (including those relating to CAP strategic plans)

## 2.2 EUROPEAN INVESTMENT BANK (EIB)

The delegation met with Mr Heinz Olbers, the Director of Western Europe Department (including responsibility for Ireland) for the European Investment Bank (EIB). Mr Olbers was accompanied by Mr Thomas Briggs, Lending Operations in Western Europe, and Ms Katalin Deppner-Quittner.

The main points discussed were as follows:

- The EIB Group has two parts;
  - the European Investment Bank
  - the European Investment Fund (for SMEs and medium-sized enterprises).
- The EIF designs innovative financial products for banks and other institutions who act as EIB's intermediaries. It provides;
  - equity instruments to increase the availability of risk capital for high-growth and innovative SMEs

- the debt requirements of SMEs
- guarantees and credit enhancement through securitisation to improve the lending capacity of financial intermediaries
- EIB does not provide funding in respect of Working Capital
- The EIB provides;
  - Lending at good rates for economically viable projects that promote EU policy objectives;
    - For projects where the total investment cost exceeds €25m (and in certain cases to companies, where the loan is €7.5m to €25m)
    - These loans can cover up to half of the total cost for both public and private sector promoters, but on average this share is about one-third
    - Can cover multi-component investment programs comprising a range of public projects such as infrastructure, energy efficiency/renewables, transport and urban renovation
    - Projects must be economically, financially, technically, socially and environmentally sound. EIB looks for a good project plan and good economic benefits. Financing conditions depend on the investment type and the security offered by third parties (e.g. other financial institutions)
    - For certain projects that support innovation, EIB can accept more risk than a commercial bank
  - Blending EIB financing with other additional sources of investment. Overall gearing for projects can be very high
  - Advisory Services – financial and technical expertise (including for projects involving complex structures, such as public-private partnerships)
- The challenges to the EIB posed by Brexit, including on its governance. Specifically;
  - the EIB's financing in 2018 was €55bn – a reduction from previous levels of €66bn. This reflected the EIB's own prudent approach to anticipating the departure of the UK from the EU and as a part-funder of the EIB
  - To maintain its capitalisation, other Member States would need to commit to provide increased funding to the EIB. Poland has indicated that it would be willing to make-up for at least some of the funding gap that will arise on the UK's departure
  - The EIB will support business that is adversely affected by Brexit
- The cost of funds that it raises is currently “in the negative”. Along with their AAA rating, its Green Bonds have a quality dimension for investors. In 2018, it raised €60bn
- As regards funding provided, the EIB work on a “cost coverage” basis, i.e. the cost of finance to the EIB + its cost of administration + a risk premium. In the case of Limerick Regeneration, the cost of administration would be 0.1 to 0.2%

- European Fund for Strategic Investment:
  - The funding for this €33.5bn is funded by EU Guarantee (26bn) and the EIB (7.5bn)
  - The EFSI creates the possibility of provided funding for higher risk projects – previous funding was directed at liquidity and lower risk projects
  - Some of this Funding is available for SMEs
- In relation to Ireland, in 2018 it approved €1.6bn of funding, with disbursements of 0.83bn - principally for infrastructure (36%) and innovation (43%). Projects funded by the EIB include;
  - NUI Galway Campus
  - Limerick Regeneration Programme
  - Irish Continental Group ferry
  - National Children's' Hospital
  - Ringaskiddy Port Redevelopment
  - Grangegorman PPP
  - Trinity College Dublin development
- Other matters;
  - The EIB's processing time for a well-planned project is 3-4 months, though times of around 1 year would not be unusual
  - The EIB was willing to advance €200 million for the National Broadband Plan
  - The EIB is indifferent to the fact that a project is proceeding as a PPP, though the overall volume of PPPs has fallen
  - Because of its focus on quality projects and the correct funding solutions, the EIB's loss rate is very low
  - The EIB's experience with Ireland has been very positive

## 2.3 THE COURT OF JUSTICE OF THE EU

The delegation met with Judge Colm Mac Eochaidh, Judge at the General Court of the European Union. Mr Mac Eochaidh explained the structure and functioning of the Court, and referred to certain cases and matters of particular interest to Ireland, including;

- That the national courts are the ordinary courts for EU matters, and that the Court of Justice of the EU has two jurisdictions;
  - the Court of Justice - a constitutional court
  - the General Court - a detailed consideration and application of complex facts. It deals with direct actions (for annulment, failure to act, damages) brought by individuals or Member States against an act of the EU
- The manner in which Judges are appointed to the Court

- The manner in which Judges preside over cases (i.e. as a single judge, in chambers of different sizes or as a full court)
- The types of cases that can come before the Court, such as;
  - References for a Preliminary Ruling (12 made by Irish Courts in 2017 and 2018)
  - Infringement proceedings
  - Actions for annulment and failure to act
  - Appeals
- Charter of Fundamental Rights of the EU;
  - Has the same legal value as the Treaties
  - Is enforceable against EU institutions, bodies, offices or agencies, as well as national authorities (when implementing EU Law)
  - Is similar to the ECHR but in an EU framework, while being more comprehensive and modern
  - Has 50 substantial guarantees in 7 titles

## 2.4 THE CHAMBER OF DEPUTIES, LUXEMBOURG

The delegation met with Mr Marc Angel, the Chair of the Committee on Foreign and European Affairs, and Mr André Bauler, the Chair of the Committee on Finance and the Budget, of the Luxembourg Chamber of Deputies. The meeting was also attended by other Members of the Committees and of the Chamber (representing all 7 political parties in the Chamber), and Ireland's Ambassador to Luxembourg, HE Mr Peadar Carpenter.

Main points arising;

- Luxembourg is very interested in Brexit. Having studied the likely impact of Brexit and considered the assessment of the European Commission, it believes that the Benelux Countries will, along with Ireland, be substantially affected. It has passed laws in relation to Brexit (e.g. measures relating to UK citizens in Luxembourg)
- It appreciates the presence of Ireland's embassy in Luxembourg, and considers itself and Ireland to be likeminded on many EU matters, including agriculture
- Luxembourg understands the difficulty that Brexit causes in relation to Northern Ireland, and the importance of avoiding a "no-deal Brexit"

The delegation from Ireland stressed;

- The impact of Brexit on Ireland and Northern Ireland, the Good Friday Agreement, and the need to maintain strong and undisrupted links over the border

- That we welcome the support for Ireland in relation to Brexit in relation to the Brexit negotiations
- The strong presence of Irish companies in Luxembourg
- That we would welcome efforts towards a strengthened relationship (including trade links) with Luxembourg and a visit by a delegation by the Luxembourg Parliament to Ireland

Other issues raised but not considered in detail included;

- Challenges to the financial sector
- Digital transformation and the challenges for the financial sector
- Corporate taxation, digital taxation and foreign direct investment

### 3. CONCLUSIONS

The Joint Committee discussed the proceedings of this travel episode at its meeting of 26 June 2019.

The Joint Committee agreed that engaging with the European Court of Auditors, the European Investment Bank and the Court of Justice of the EU in Luxembourg was very productive and worthwhile, and that forming a combined delegation with the Joint Committee on Finance, Public Expenditure and Reform, Taoiseach added value to the visit. It was also agreed that meeting with parliamentarians from the Chamber of Deputies in Luxembourg was a great opportunity to strengthen relations with a like-minded Member State.



Michael Healy Rae, TD

Chairman of the Joint Committee on European Union Affairs

9 July 2019



**Tithe an  
Oireachtais  
Houses of the  
Oireachtas**

Delegation visit by the Joint Committee on European Union Affairs and the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Luxembourg

14-16 April 2019

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### Sunday 14 April

Arrival of delegation in Luxembourg

### Monday 15 April

- 9.15**            **Depart Hotel**
- 9.25**            **Arrival at European Court of Auditors and clear security**
- 9.30**            **Welcome coffee**
- 9:45**            **Presentation and discussion on the Work of the European Court of Auditors and Brexit**
- Mr Tony Murphy, Member of the Court of Auditors (Ireland)
- 10.30**           **Presentation and discussion on the Common Agriculture Programme (CAP)**
- Mr João Figueiredo, Member of the Court of Auditors (Portugal)
- 11.15**           **Presentation and discussion on the Future of Multiannual Financial Framework (MFF)**
- Mr Mihails Kozlovs, Member of the Court of Auditors (Latvia)
- 12.00**           **Presentation and discussion on the Report on the European Fund for Strategic Investments (EFSI)**
- Mr Leo Brincat, Member of the Court of Auditors (Malta)

- 12.45 Lunch**
- 14.00 Depart the European Court of Auditors**
- 14.15 Arrive at the European Investment Bank (EIB) and clear security**
- 14.30 Meeting in the European Investment Bank (EIB)**
- Short presentation on the activities of the EIB, with reference to the EIB's activities in Ireland, followed by discussion with the delegation.
- Mr Heinz Olbers, Director Western Europe Department, with responsibility for Ireland
- 15.30 Leave the EIB and walk to the Court of Justice**
- 15.45 Meeting with Judge Colm Mac Eochaidh**
- Presentation and discussion on the work of the Court of Justice
- 19.30 Dinner hosted by Mr Tony Murphy, Member of the European Court of Auditors**

## Tuesday 16 April

- 10.50 Depart Hotel for the Parliament of Luxembourg**
- 11.00 Arrival at the Chamber of Deputies**
- 19, rue du Marché-aux-Herbes, L-1728 Luxembourg*
- Welcome by:**
- |                     |  |
|---------------------|--|
| <b>Marc Angel</b>   | Chair of the Committee on Foreign and European Affairs |
| <b>André Bauler</b> | Chair of the Committee on Finance and the Budget       |

### **Signing of the Golden Guest Book**

### **Official Group Photo**

### **Joint Meeting with the Members of the Committee on Foreign and European Affairs, Cooperation, Immigration and Asylum and the Committee on Finance and Budget**

*Meeting Room 4 and 5*

*Members attending the Meeting:*

Mr Marc Angel - Chairman

Mr André Bauler - Chairman

Mr Gusty Graas

Mr Fernand Kartheiser

Mr Roy Reding

Mrs Joëlle Elvinger

Mr David Wagner

**12.30 Official Lunch to be hosted by Chairman Marc Angel and Chairman André Bauler**

*Ambassador Carpenter (Irish Ambassador to Luxembourg) to attend*

**15.00 Quick Guided tour of the City of Luxembourg**

**16.00 Transfer to Airport**



## APPENDIX 2: MEMBERS OF THE DELEGATION

### **Joint Committee on European Union Affairs**

1. Senator Neale Richmond [Fine Gael]

### **Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach**

1. Senator Gerry Horkan [Fianna Fáil]- Vice-Chairman of the Joint Committee
2. Michael McGrath TD [Fianna Fáil]
3. Senator Kieran O'Donnell [Fine Gael]

Accompanied by:

Tom Sheridan,

Clerk to the Joint Committee Finance, Public Expenditure and Reform, and Taoiseach