Opening Statement to the Joint Committee on Finance, Public Expenditure and Reform in relation to EU Matters on 12 June 2018

Paschal Donohoe TD, Minister for Finance & Public Expenditure and Reform Tuesday June 12th 2018

INTRODUCTION

Good afternoon. I would like to thank the Chairman and Committee members for inviting me to speak to you today on a number of EU related matters namely:

1. Government approach to the future EU Budget and the next Multiannual Financial Framework for the years 2021-2027;
2. the 2018 country specific recommendations for Ireland as related to my Department;
3. developments on Banking Union; and
4. The recently published EU legislative proposals for Whistleblower Protection.

1. Government approach to the future EU and the next Multiannual Financial Framework 2021-2027

Turning to the first item, it is timely to have a discussion now that we have the European Commission's proposal for the Draft Budget 2019 and on the next Multiannual Financial Framework (MFF).

Ireland and the EU Budget

The European project has helped to transform Ireland from one of the least developed Member States when we joined, to one of the more prosperous today. We all recognise how we have benefitted from the EU and it's important to use that experience to help shape the debate on the future of Europe and what our priorities should be.

The Post-2020 MFF comes at a time of change and adjustment for the EU – longer-term challenges such as economic competitiveness, continuing youth unemployment and climate change, emerging challenges to international trade and access to the single market as well as international challenges, such as migration, security and terrorism – have become more pronounced in recent times. In addition, the departure of the UK will cause both short and longer-term practical challenges for the MFF.

It is worth recalling how Ireland's relationship with the EU Budget has evolved. As you will be aware, Ireland has traditionally been a significant net beneficiary of the EU Budget. Since accession in 1973 until 2016, we paid in approximately €34bn but received €76bn, €42bn more than we have contributed.

Contributions

With Ireland's growing prosperity, we have moved from being a net beneficiary to a net contributor to the EU budget over the last number of years. Member State contributions to the EU Budget are calculated by the EU Commission in line with the provisions outlined in the Own Resource Decision which was ratified by all Member States in 2016. This Own Resource Decision lays down three sources of EU revenue, or 'Own Resources':

- Customs duties, collectively known as "Traditional Own Resources";
- Contributions based on VAT; and
- Gross National Income (GNI) based contributions.

When taken together the Traditional Own Resources and VAT elements account for approximately 30% of Member State contributions. The remainder mainly comes from Gross National Income (GNI). This is an important element as it links the contributions of Member States to the size of their economy.

Given the high levels of economic growth in Ireland in recent years, combined with a lack of such growth amongst other Member States until recently, our overall share of contributions to the EU Budget has grown and Ireland became a net contributor to the EU Budget – on a cash flow basis - for the first time in 2014. Ireland's current contribution as set out in the Stability Programme Update and is forecast to be approximately €2.7 billion in 2018, moving towards €2.9 billion in 2019. It is worth noting that while these forecasts are volatile and contingent on a number of variables - such as economic growth in Ireland and the EU's overall level of expenditure in any given year – the trend in relation to Ireland's growing contributions is continuing.

Receipts

Under the current MFF it is forecast that Ireland will receive just over €12bn over the course of the seven years. The majority of Irish receipts from the EU - about 80% - come through the Common Agricultural Policy (CAP) and are spent on areas such as direct income and market support to the agricultural sector. Further monies are received for rural development programmes. There is broad awareness in both urban and rural areas of Ireland of the role which these funds have played in helping to modernise and develop our economy.

While Ireland has in the past benefited enormously from Structural and Cohesion Funding, which continues to play an important role for many other Member States in fostering economic development and prosperity, receipts in this area have been declining in recent years because of our economic growth. I especially welcome the Commission's proposal for a new PEACE PLUS programme to continue and build on previous PEACE and INTERREG programmes. The Irish Government has been consistent about its commitment to the implementation of the current programmes and to successor programmes post-2020.

Ireland has also benefited from, and is supportive of, programmes for Competitiveness for Growth and Jobs including Horizon 2020, Connecting Europe Facility, and Erasmus+. For example, the Horizon 2020 programme which supports research and development is an important driver of research excellence and Ireland is on track to achieve €1.2bn in competitive funding under the current MFF in this area.

MFF 2021-2027

Ireland welcomes the European Commission's publication of proposals on the post-2020 MFF. While many parts of the proposal have been published – such as on agriculture and cohesion – a number of others have yet to be released.

Some of the key points in the proposal include:

- €1.135 trillion in commitments in 2018 prices; or €1.279.4 trillion in current prices, covering the period 2021 to 2027. This is equivalent to 1.11 per cent of the EU27's Gross National Income (GNI).
- More funding for priority areas including research and innovation, young people, the digital economy, border management, security and defence.
- CAP and Cohesion Policy funding to be reduced by approximately 5 per cent.

- Erasmus+ to be doubled

The Commission have made a number of proposals on Own Resources:

- An increase in the Own Resources ceiling from 1.2 per cent to 1.29 per cent of EU-27 Gross National Income (GNI).
- A Reduction from 20 per cent to 10 per cent in the amount Member States can retain when collecting customs revenues.
- A more simplified approach for calculating VAT payments to the EU.
- The retention of Gross National Income (GNI).
- The elimination of Rebates.

In addition the Commission are proposing a number of measures in order to increase Own Resources, for example

- 20 per cent of the revenues from the Emissions Trading System;
- 3 per cent of the new Common Consolidated Corporate Tax Base. This is expected to be phased in once legislation has been adopted;
- A National contribution calculated on the amount of non-recycled plastic packaging waste in each Member State. This is set at eighty cent per kilo.

The Government has already begun to develop a national position on these matters. We believe that the MFF Post-2020 should continue to adapt to the EU's evolving priorities. We also believe that we should not lose sight of the value and contribution of traditional policies including agriculture and cohesion. The CAP is a key national interest and will continue to be so. We want the EU to continue to fund programmes that work and work well. Expenditure in the area of agriculture helps support 44 million jobs across the EU, while contributing to food security and safety, rural sustainability and environmental standards. Cohesion is another important policy tool of the Union. Structural funds for less developed Member States of the Union will enable them to unlock their economic potential, which will benefit all of us in the long run. We will need to carefully consider the implications of any amendments in these areas.

We welcome the emphasis on other policies that function well, including Erasmus+, the Framework Programme for Research and Innovation and the EU's global instruments. It is vital also that there be a continuation of the PEACE and Interreg programmes post Brexit, as foreseen in the Commission's Progress Report from last December.

Ireland believes that the amount of expenditure at EU level will need to be proportionate and appropriate to the overall levels of available funding and that the discussions on the post-2020 MFF priorities and objectives will need to be framed in this context. That accepted, the Taoiseach has indicated that Ireland is open to contributing more provided that it meets European Added Value objectives.

As the Committee will appreciate, the Commission's proposals are complex and will require careful analysis and study. They are under-pinned by legislative proposals in each of the sectoral areas. All relevant Government Departments are examining these carefully and will prepare to engage in the detailed discussions which will begin at official level shortly. We look forward to engaging in a positive, constructive manner in the upcoming negotiations on the MFF post 2020.

2. The 2018 country specific recommendations (CSRs) for Ireland as related to my Departments

Let me now turn to the second item on the agenda, which is the country specific recommendations as related to my Departments.

The European Semester is an annual cycle of economic and budgetary policy coordination in which guidance is provided to Member States before they take policy decisions at national level. The Department of An Taoiseach centrally coordinates Ireland's participation in the Semester process. The Semester process starts every year in November, when the Commission publish the Annual Growth Survey, which outlines the general economic priorities for the European Union, and the Alert Mechanism Report, which identifies Member States that are experiencing economic imbalances – and is part of the European early warning system that identifies economic issues or sectors that countries need to address. Later in March, the European Commission publish a Country Report for each Member State. This assesses the progress made by each Member State in addressing the issues identified in the previous year's Country Specific Recommendations. In April, Member States respond to the Commission's analysis in the Country Report by submitting a National Reform Programme, which provides an overview of structural reforms and policy actions that are currently are underway and also by submitting the Stability Programme Update, which sets out the updated macroeconomic and fiscal forecasts for the period 2018 – 2021. Once the Commission has considered these, it publishes the Country Specific Recommendations for each Member

State on policy measures to be considered by Member States over the coming twelve to eighteen months.

Similar to last year, Ireland received three recommendations, in the areas of fiscal policy, government expenditure and investment, and the management of long term non-performing loans.

CSR1 deals with the effectiveness of public finances and expenditure. In particular it focuses on the reduction of government debt and broadening the tax base, as it did last year. Ireland's stronger than expected headline growth in 2017 has allowed us to make good progress towards achieving our medium-term objective (MTO) and reducing government debt, which has also benefitted from the use of "windfall gains" from the sale of part of AIB.

CSR 2 addresses the implementation of the National Development Plan. This recommendation reflects the government investment priorities and dovetails with the Irish government's stated priorities including childcare, housing and water services.

For the first time, CSR 3 focuses on productivity growth, with particular regard for small and medium enterprises. This is welcome, as the Department has collaborated with the OECD on firm-level productivity research, which was published in March and on which a presentation was given at the March ECOFIN. CSR3 also emphasises resolution of long-term loan arrears, building on initiatives for vulnerable households.

These recommendations have been examined by my Department and are not surprising given the emphasis placed on these areas in the Country Report. Such recommendations are to be expected for a growing economy and I agree with their overall substance. I will provide further information on these later in the meeting. At present, the Country Specific Recommendations will be on the agenda for discussion and agreement at the ECOFIN Council on 22 June and, following that, are then expected to be endorsed by the European Council on 28 – 29 June. They will finally be adopted at ECOFIN on 13 July. Member States will then be able to reflect them in their budgetary and policy plans for 2019.

3. Developments on Banking Union

I will turn now to the issue of Banking Union. As members will know, in response to the financial crisis, a number of initiatives were introduced at EU level to create a safer financial sector. These initiatives form a Single Rulebook for all financial actors in the EU Member States which consists of a set of legislative texts that are applied to all financial institutions across the EU. Specifically, the rules include capital requirements for banks, rules for managing failing banks and improved deposit guarantee schemes.

The most significant elements are -

- the Capital Requirements Regulation and the Capital Requirements Directive, known as CRR and CRD – these were first agreed in 2013;
- the Bank Recovery and Resolution Directive, or BRRD; and
- the Deposit Guarantee Schemes Directive. These two elements were agreed in 2014.

The Commission has also made a proposal for a European Deposit Insurance Scheme, or EDIS.

In addition to this Single Rulebook, which is the foundation of the Banking Union, there was a commitment to shift supervision to the European level, with the introduction of the Single Supervisory Mechanism in November 2014, and later with the establishment of the Single Resolution Mechanism.

Key Pillars

A roadmap for the creation of the Banking Union set out the main steps to be undertaken by the EU institutions based on risk reduction and risk sharing. Three pillars were set up and comprise of:

• a Single Supervisory Mechanism, the SSM.

• a Single Resolution Mechanism, SRM, which includes a Single Resolution Fund

• European Deposit Insurance Scheme, or EDIS.

Ireland has been supportive of Banking Union from the outset and we are continuing to work closely with our EU colleagues to further advance this.

Risk Reduction Measures Package

At the Ecofin meeting in May, Ministers agreed the latest measures in Banking Union – known as the "Risk Reduction Measures".

These measures were proposed by the European Commission in November 2016 and aimed to implement reforms agreed at international level. The package comprised two regulations and two directives and aimed to update and amend the Capital Requirements Regulation and the Capital Requirements Directive, as well as the Bank Recovery and Resolution Directive, which are the aspects of the Single Rulebook which underpin the first two Pillars of Banking Union.

These proposals are designed to ensure that banks have sufficient loss absorption and recapitalisation capacity in the case of a bank resolution. The aim is to enable banks to continue critical functions without endangering financial stability or requiring taxpayer support. One of the key amendments was to introduce at an EU level the 'Total Loss-Absorbing Capacity' standard, which had been agreed at international level for Global Systemically Important Banks. With the package agreed in May, this 'Total Loss-Absorbing Capacity' standard was integrated into EU law.

The amendments to the Capital Requirements Regulation and the Capital Requirements Directive introduced stronger prudential requirements for banks, ensuring they are adequately capitalised and less susceptible to liquidity issues. These amendments for the most part aim to implement additional international standards agreed since the implementation of the original Capital Requirements Regulation and the Capital Requirements Directive in 2013. However, they also include measures which aim to reduce the regulatory burden on smaller, less complex banks as well as targeted proposals to help finance the real economy.

I believe that the Risk Reduction package agreed at ECOFIN on 25 May was a good one. I am hopeful that the **European Parliament** will be able shortly to start negotiations, allowing us to agree these proposals and enact them as soon as possible. It will fall to the incoming Austrian Presidency to advance these negotiations.

4. EU legislative proposals for Whistleblower Protection

The final item you asked me to address is the proposed EU Directive on the protection of whistleblowers, which was published on the 23rd of April.

As the members of the Committee may be aware, Ireland is one of just 10 EU Member States to have enacted a comprehensive package of protections for whistleblowers in the form of the Protected Disclosures Act 2014. The Act is well regarded internationally and seen as an exemplar of this type of legislation.

Accordingly, while I welcome the EU's initiative in this area, careful consideration is needed as regards how these proposals will interact with the operation of the Protected Disclosures Act. I do not want the protections our legislation offers to be diluted by any of the EU's proposals. In this regard, I am pleased to see that the approach the EU has taken mirrors many of the provisions of our legislation in that it applies to broad categories of workers and reportable wrongdoings and provides for both internal and external channels for reporting of wrongdoing.

The protections from retaliation provided for in the draft Directive are also broadly similar to those provided for in our legislation and include protection from dismissal (including the right to seek interim relief from dismissal) and from other forms of detriment such as reduction in pay, suspension, demotion or withholding of promotion as well as intimidation and harassment.

There are, however, a number of key differences between the proposed Directive and the Protected Disclosures Act. In particular, the Directive:

- Applies to a wider cohort of persons, including volunteers, unpaid trainees and job applicants;
- Includes a wider range of matters that may be reported as wrongdoings, including reporting on corporate tax avoidance; and
- Places specific obligations on businesses with over 50 employees or a turnover of €10m or more to establish formal channels and procedures for receiving disclosures. Companies in financial services or in any areas of high risk of being vulnerable to money laundering or terrorist financing will be required to establish internal channels irrespective of size.

The practical implications of all of these will require careful consideration and clarification, including engagement with relevant stakeholders and with the EU Commission.

Transposition of the Directive, if adopted, may require some amendments to the Protected Disclosures Act to reflect the provisions of the Directive and ensure harmonisation of the procedures for making a disclosure under the Directive and under the Protected Disclosures Act.

Finally, as the Committee may be aware, a statutory review of the operation of the Protected Disclosures Act is being finalised. The potential impact of the Directive will have to be taken into consideration in making any of the recommendations contained in the review. The review will be published by the statutory deadline of 8 July.

CONCLUSION

Chairman and members of the Committee, I trust that the above gives you an outline of the various issues you asked me to address in your invitation. I would like to thank you for your attention and, at this point, I will be happy to respond to any questions or observations that Members may have.

ENDS