DÁIL ÉIREANN

AN COMHCHOISTE UM GHNÓTHAÍ AN AONTAIS EORPAIGH

JOINT COMMITTEE ON EUROPEAN UNION AFFAIRS

Déardaoin, 4 Nollaig 2014

Thursday, 4 December 2014

The Joint Committee met at 2 p.m.

MEMBERS PRESENT:

Deputy Eric Byrne,	Senator Colm Burke,
Deputy Bernard J. Durkan,	Senator Aideen Hayden.
Deputy Derek Keating,	
Deputy Seán Kyne,	

DEPUTY DOMINIC HANNIGAN IN THE CHAIR.

The joint committee met in private session until 2.15 p.m.

EU Investment Package: European Commission Office Ireland

Chairman: I remind members to ensure that their mobile phones are switched off. It is not sufficient to put them on silent. They must be switched off as otherwise they will interfere with the broadcasting equipment. Could those in the Visitors Gallery check that their phones are switched off?

Before we come to today's business, I welcome to the committee our latest member. Deputy Derek Keating has been appointed to our committee to replace former Vice Chairman, Deputy Dara Murphy. The Deputy is very welcome to the committee. We look forward to his engagement here and we wish him the best for his tenure.

Today the committee will be briefed on the EU investment plan for Europe, recently announced by President Juncker. His first priority is to strengthen the stimulus towards investment and jobs. He sees this plan as a central pillar of that process. We will be briefed on this plan by Ms Barbara Nolan and Mr. Patrick O'Riordan, both from the European Commission's Dublin office. We will also be briefed on the recently published annual growth survey, which will include plans to streamline the European semester process. These are both very important aspects of our work. I welcome both Ms Nolan and Mr. O'Riordan. We will begin with the investment plan and then move on to the annual growth survey.

Before we do that, members are reminded of the long-standing parliamentary practice to the effect that members should not comment on, criticise or make charges against a person outside the House or an official by name or in such a way as to make him or her identifiable. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of the evidence they are to give this committee. If they are directed by the committee to cease giving evidence in relation to a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. Witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise nor make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Ms Barbara Nolan: I thank the Chair for inviting us. We are a double act. I will begin with the investment plan before passing the floor to Mr. O'Riordan to present the second point, which is the European semester and the annual growth survey.

I would like to start with a few introductory words about the new Commission. As members know, 2014 has been a year of major change in the European Union. The ball started rolling with the European Parliament elections in May. We had changes at the helm of the European Council, the European Parliament and the European Commission and have basically had a major overhaul of the main personalities driving the EU agenda.

The new European Commission President, Jean-Claude Junker, has made it clear that he does not intend it to be business as usual. He wants to make a fresh start and to focus the European Union's activities on the key challenges faced by its citizens. He has put together a ten-point agenda, concentrating on the areas in which he believes concrete action should be taken during his term of office. The key message from the new Commission is that the European Union needs to be bigger and more ambitious on the big things and smaller and more modest on the small things. Basically, a stricter application of the principle of subsidiarity should be applied. That is our *leitmotif* for going forward.

What are the priorities? We are going to discuss the first big priority today - a new boost for jobs, growth and investment. The investment plan is central to this. The biggest challenge is the economy. We have low growth and high unemployment across the EU. Youth unemployment, in particular, is of major concern. The second priority is to have a more connected digital single market. The third priority is to have a more resilient energy Union, with a forward-looking climate change policy. The fourth priority is a deeper and fairer Internal Market with a strengthened industrial base. The fifth priority is to have a deeper and fairer economic and monetary union.

I would like to underline to the committee that President Junker has been clear in the importance he attaches to the social agenda. The social agenda has not perhaps been to the fore over recent years as Europe has tried to manage the crisis, but it is very much back in vogue. The President has told the European Parliament that the stability of our single currency and the solidity of public finances are as important to him as social fairness in implementing the necessary structural reforms. He has, on a number of occasions, underlined that he is a strong believer in the social market economy. I would like to send that message very clearly because it is an important highlight of the new Commission.

Another priority is a reasonable and balanced free trade agreement with the US. Justice and fundamental rights based on mutual trust is another priority. Developing a new policy on migration is another priority as migration issues are of major concern. Another priority is for the EU to be a stronger global actor. Creating a Union of democratic change is another priority. That is a broad brush of the new priorities, the new Commission and where the emphasis lies.

I will move on to the investment plan, adopted by the Commission two weeks ago. After years of stagnation, there are still major challenges to get Europe back on the road to prosperity. The investment plan is designed to help to address this. The new Commission only took office on 1 November and three weeks into its term, it has already launched its new €315 billion investment plan. The aim is basically to kick-start investment, growth and jobs in Europe.

This plan has been developed in close co-operation with the European Investment Bank, which is the largest multilateral lender and borrower in the world. With the sovereign debt crisis over, there is a need for a fresh impetus to unlock investment. While investment is taking off in the US, Europe is lagging far behind. Despite the fact there is ample liquidity in Europe, investment levels are €440 billion below their peak in 2007. This is holding the EU back and is leading to sluggish recovery and only very marginal changes in the high unemployment levels we have currently.

The investment plan is taking a new approach. Its focus is mainly on capturing riskier projects that would not normally attract support. This is an innovative approach going beyond what we normally do in existing EU programmes and also going beyond the traditional activities of the European Investment Bank. In essence, it changes the way public money is used. Public money will not be used as grants in this particular plan but rather it will be used to leverage private funds. It will provide a guarantee to investors to help to tap into the liquidity that is already there. This block of funding aims to remove the fear factor or the reticence private investors have in funding major projects. It aims to remove that fear factor in order to help unlock the funds they have available.

The plan is built on three strands. The first is the creation of a European fund for strategic investments, guaranteed with public money. This is to mobilise the €315 billion of additional investment by 2017. The fund will be hosted by the European Investment Bank and co-funded by the European Investment Bank and the European Commission. It will provide partial risk protection and will complement current activities by focusing exclusively on strategic investments that are necessary for Europe's return to growth but investments that have a different risk profile to projects currently funded by the European Investment Bank. We are not trying to displace one sort of funding with another but are trying to tackle or open up a new seam of projects that would never be funded without giving some kind of guarantee to get them off the ground.

The fund is supposed to be operational by the middle of next year. The EU will provide a budget of €16 billion in funding while the European Investment Bank will contribute an additional €5 billion in risk-bearing capacity. However, this is only the beginning. Based on prudent assumptions and historical experience, we expect this seed funding to turn into a €315 billion investment in the real economy because the multiplier effect is calculated as 1:15, so for every €1 of public funding mobilised in the fund, we anticipate that €15 of total investment which would otherwise not have happened will be generated. The advice the Commission has had from the European Investment Bank and other banking and investment experts is that it is a reasonable assumption to make and that this could be the multiplier effect of the initial investment.

The second part of the plan, which I think will be particularly interesting to members, is the establishment of a pipeline of projects in areas of strategic importance, such as broadband, energy networks, transport infrastructure, education, research and innovation and energy efficiency. They are the broad areas which obviously cover a whole swathe of activity.

Investment in small and medium enterprises and mid-cap companies will be a particular target. SME investment in Ireland took a big hit during the crisis and this plan has the potential to help to address that issue. The first list of potential projects is due to be announced later this month. This list is currently being developed by a task force chaired by the European Investment Bank, EIB and the European Commission with the member states feeding into this. As I understand it, it is primarily officials from the Department of Finance who are feeding in the Irish element of this. I must stress, however, that being on the list is not a guarantee of funding and not being on the list does not mean a project is ineligible either. However, we hope the list will provide relevant and transparent information about projects that may be of interest to investors.

On the question of how projects are selected, funds will be channelled to viable projects with real added value for the European social market economy. Such projects are in areas like digital technology, energy, education and so forth and have the potential to boost employment. There are three key criteria used in the assessment of projects. The first is the potential for EU-wide added value and whether the projects support EU global objectives. The second is economic viability and value which means projects with high socio-economic returns will be prioritised. The third criteria is whether the projects are shovel ready, that is, ready to start within the next three years at the latest. There must be a reasonable expectation of capital expenditure in the 2015 to 2017 period. Projects must have the ability to leverage funds and draw in private investment. The money provided by us is only the initial funding. The projects must be able to stand on their own two feet, so to speak, and be able to attract private sector investment to achieve the multiplier effect to which I referred.

The fund will have a dedicated committee consisting of experts who will validate every project from a commercial and societal perspective. The identification of specific projects will be carried out by those close to the situation on the ground, for example, by regional and local authorities and those operating in a particular market. The fund should be operational by the middle of 2015. The fund does not foresee any division or pre-allocation by member state or sector. There is no *a priori* earmarking as would be the case with, for example, Structural Funds. Projects will be chosen according to their viability and the process is not political but technical in nature.

The final strand of the investment plan is a roadmap to make Europe more attractive to investors by removing bottlenecks and establishing a more stable business-friendly and predictable regulatory environment. The establishment of a genuine single market in energy, the digital sphere, capital, public procurement and services is part of this. The new emphasis on promoting investment is a key element of the broader economic strategy of the European Commission which is based on the three inter-related elements of the investment plan, structural reform and fiscal responsibility. Mr. O'Riordan will focus on the second and third elements when he addresses the semester and annual growth survey.

Chairman: I thank Ms Nolan. We will now deal with questions on the investment plan, following which Mr. O'Riordan will make his address. My first question is on the document itself, which refers to the fact that member states can help to augment the amount of money available by putting some of their own money in. The European Commission says that in the context of the assessment of public finances under the Stability and Growth Pact, it will take a favourable position towards capital contributions from member states to the fund. My reading of that is that such contributions would fall outside the 3% deficit criteria, so if Ireland decided to spend additional money on this fund, that would not be taken into account in our deficit calculations. Am I correct in my understanding? Has that provision done the tour of European capitals? Are all of our colleague member states on board with that? Having attended the COSAC conference at the weekend, it strikes me that there would not be unanimity across Europe on how we treat expenditure and whether contributions to this investment fund should adhere to Stability and Growth Pact rules.

My second question relates to the multiplier referred to by Ms Nolan. My understanding is that we are taking around €16 billion that has not been spent from the Europe 2020 funds and existing European budgets and adding €5 billion to that from the EIB to get a total of roughly €20 billion. We are going to look for a further €40 billion through securitisation or through senior debt and then use that €60 billion to leverage a further €240 billion for individual projects. As Ms Nolan said, this is essentially a multiplier of 1:15. She maintained that we are likely to get that effect with the fund, but I would worry about that because the types of projects being earmarked for support are riskier than those normally supported by the EIB. We met representatives of the EIB last year. While it is an extremely good organisation, it is very cautious in terms of its investments. While I would not doubt that the EIB could get the 1:15 multiplier, I wonder if we will actually see that. While I welcome this commitment, I believe the amount being put up initially is not huge and is existing money, in effect. I am not convinced we will see the quantum of investment envisaged as a result of that initial amount.

When it comes to setting out the list of projects, the document before us says that geography will not be taken into account. How can Ireland ensure that it gets a fair share of the cake, bearing in mind that infrastructure in some parts of Europe, particularly in the newer member states in the east, is a lot worse than ours? My concern is to ensure that we get some of the infrastructure investment in particular.

On page 14 of the document it is argued that the Commission has made "better regulation" one of the main priorities of this mandate. We all want better regulation but I ask Ms Nolan to give me some concrete examples of what this will entail and the type of changes we can expect to see.

I invite members to pose questions.

Deputy Seán Kyne: I welcome Ms Nolan to this meeting and thank her for her presentation. The Chairman has raised a few seminal issues. On the multiplier effect, we must bear in mind that it is not a question of more than €300 billion being available, which sounds like a huge pot of money, albeit to be spread across the European Union. I have some concerns about the mathematics behind that.

Ms Nolan referred to a dedicated committee and I ask her to explain how the projects will be assessed. Will there be quotas for different countries or will they be chosen irrespective of the country of origin? The Chairman referred to regional concerns. Under previous funding for transport, for example, there was a cross-border condition attached to funding. Obviously, on the mainland of Europe, road and rail networks would often traverse several different countries but that is not the case here, apart from our attachment to one part of the United Kingdom in Northern Ireland. Will that impact on the level of funding that will be available to us?

Ms Nolan also mentioned that the investment fund would be open to projects not funded by the EIB. What type of projects is she referring to in that regard? She mentioned a number of areas that I would have thought would be eligible for EIB funding. Are there specific projects that have not been funded by the EIB that this new funding model will be able to take up?

Deputy Eric Byrne: I welcome the delegation from the European Commission office. I wish to revert to the comment on the use of language made by the Chairman. The third point in Ms Nolan's statements states:

> The final strand of the investment plan is a roadmap to make Europe more attractive to investment by removing bottlenecks, and establishing a more stable, business friendly and predictable regulatory environment. The establishment of a genuine Single Market in energy, the digital sphere, capital, public procurement and services is a part of this.

The first part of the sentence is clear but I would like somebody to elaborate on the following words: "by removing bottlenecks" and "establishing a more stable, business friendly and predictable regulatory environment". Is the regulatory environment not attractive? We know we are working towards the establishment of a genuine Single Market in energy, the digital sphere and so on but there is also reference to capital and public procurement and services. I understood that procurement was an EU policy. One hears about the contract for the publications of Irish school books going to Poland, when we could do it ourselves. I would like examples of the difficulties and where the bottlenecks occur that make the market not sufficiently attractive for investment.

Chairman: Deputy Byrne has made some very good points and I agree with what he has said.

Deputy Bernard J. Durkan: I apologise for my late arrival but I have read the script carefully.

Deputy Eric Byrne: The second page.

Deputy Bernard J. Durkan: I have read all the pages. My apologies for my colleague who is interrupting me, Chairman.

I thank our guests and Ms Nolan for her introductory statement. I agree that the selection of critical infrastructure is a key factor in the ongoing investment programme for Europe, as it will impact on the alleviation of youth and general unemployment and will lead to the future development and growth in the EU. I emphasise the word "growth". The method of identifying projects will be of significant importance. Identification of the infrastructural deficits and other issues that are likely to impede industrial and economic growth is the key. We have had a recession for some considerable time right across Europe. This country, ironically, is doing better than most of our colleagues and is certainly doing better than most of our colleagues in the eurozone. Is it recognised that we must deal as soon as possible with the infrastructural deficits? I see that 2017 has been set as the date by which time when most things are likely to happen. One of the major problems in the EU is the lack of speed in identifying problems and putting in place the necessary remediation measures.

I will revert to my signature theme. I have seen no reference to the adoption of a single currency across the EU for some considerable time. I presume that is based on the equivocation about the eurozone and the pressure it came under. I am firmly of the belief that as long as we have a multiplicity of currencies in the EU, we will never have stability. I believe that is a necessary target. The possibility of achieving that is more remote than it was a couple of years ago but it is an issue that needs to be brought to the fore. If the United States had five or six different currencies it would be the laughing stock internationally, but the EU - with a much bigger population and much greater opportunity of having a serious positive economic impact - could benefit if it were possible to put the single currency back on the agenda.

My final point is that this is not a political process but a technical operation. I worry about technical operations. All my life I have been worried about them because they tend to proceed very slowly. Anything that proceeds slowly in the present climate is not to the advantage to the cohesive future of the EU or to the people of the EU. Issues such as youth unemployment, unemployment in general and the lack of economic growth must be tackled. I would like to see more specific and energetic activation to ensure we meet the targets in these areas.

We have spoken about the new Commission, Parliament and Council, yet despite the best efforts of everybody in individual member states and in the EU institutions there is a great deal of work to be done on the problems we have inherited.

Deputy Derek Keating: I will be brief. My colleague has touched on the issue I wished to raise, the process associated with the identification of the infrastructural projects. The Chairman also touched on another issue that was on my mind, the possibilities and options for Ireland in terms of getting a fair share of the available investment.

Ms Barbara Nolan: I will start by addressing the questions raised by the Chairman. What we are discussing is at the proposal stage. This is a proposal from the Commission regarding member state participation in the fund, which we would like to see happening because it will leverage more funding for investment. The Commission has said in its proposal that it would like to see that funding be treated in a certain way and not as part of the stability and growth pack calculations. The matter is under discussion. I understand COSAC holds a different view. Member states are making their views known at various meeting in Brussels preparing the ground for the summit meeting of the European Council which will take place later this month.

The proposal will be discussed by the Heads of State and Government on 18 and 19 December. We have to see if that is accepted and it is why the European Commission is backing it. We feel we can leverage more funding if we treat it as productive investment from the member states.

I did calculate the multiplier. It has been said that a ratio of 1:15 is a conservative estimate of what can be leveraged from the initial capital. As I have said, this has been developed not only by the Commission but with the European Investment Bank, which has a great deal more experience in how much one can leverage in terms of crowd-in in investment on the basis of the initial outlay. The EIB has models that say the ratio is 1:18, but we have gone for the conservative estimate on the basis of historical experience. The ratio may turn out to be much better than 1:15 but it may turn out to be worse. Who knows? We have to see what happens. The data have been feed into the system and this is what has come out the other end.

On the issue of the share-out of the cake to the geographical regions, as I said there is no *a priori* earmarking for member states or for specific sectors. It is done on the basis of the viability of the projects. Every member state will be trying to go through its list of the projects in the pipeline to try to ensure that the project it submits will have a genuine chance of crowding in investment. There will not be 100% funding of one individual unless we can attract extra private sector and public sector investment. That is the reality. The projects will stand or fall on their merits in this regard and on whether they are meeting the criteria I explained in my opening remarks. I would say it is in the interests of every member state to put forward its best and most viable projects. I am sure Ireland is working on that right now. Maybe it has already submitted some projects. That is the way we expect things to pan out.

I was asked what is meant by “better regulation”. One of the innovations of the new Commission is that Commissioners will no longer simply be able to put something on the Commission agenda and have it adopted. The Commission now has a Vice-President, Mr. Timmermans, who is there to act as a guardian in that regard.

Chairman: I met him on Monday.

Ms Barbara Nolan: Yes. His role is to be a watchdog. The new President of the Commission has taken on board people’s wish not to see excessive Commission activity in the nooks and crannies of daily life. The idea is that Mr. Timmermans will be big on the big things and small on the small things. His job is to vet whatever is going into the Commission work programme. A situation with regard to the plastic bag issue, which is not a particular problem for this country because we have legislated on it, arose two weeks ago. Mr. Timmermans was not inclined to pursue some kind of legislation on the issue at European level. The European Parliament and key stakeholders were pressing for the legislation to be pursued. In the end, it made it through the sieve. Compared to the structure that is in place now, there will be much more vigilance about what is going into the Commission agenda and what the Commission will be adopting. Each Commissioner will have to defend what he or she proposes to do on the Commission’s work programme and why it is necessary.

Chairman: When is it expected that this work programme will be published? Will it happen this month or next month?

Ms Barbara Nolan: Hopefully, yes. That is what better regulation means, at least from our perspective. Regulations that have become obsolete, for various reasons, will also be reviewed to see if we need to get rid of them. Proposals that are in the circuit but have not been adopted will be reviewed to ascertain whether they are unnecessary in light of the new thinking. We already had the refit exercise. This is building on that exercise. That is how this is expected to work.

I was also asked how the projects will be assessed. I do not have much more to add to my remarks on the criteria, on who is involved and on the committee that is being established by the Commission and the European Investment Bank with input from member states.

Many projects will be cross-border projects. I refer not only to the Border here but also to the many borders across Europe. Perhaps large infrastructural projects that cross various national frontiers will be jointly submitted by a number of member states. This will be a factor. From our perspective, it does not matter. We welcome cross-border initiatives because that is where the added value of EU activity can come into play.

I assure Deputy Eric Byrne that there are many bottlenecks in many markets. We do not really have a single digital market or a single energy market. There are many problems with the way our markets work in Europe that cause bottlenecks, put off investment and make people cautious. The unstable economic situation has been a major turn-off for investment. These are the things we are setting out to tackle with this investment plan.

I will explain what I meant when I said this process is a technical operation. Obviously, the overall goals are extremely political. We are trying to select projects that will reduce unemployment, etc. Clearly, there are major political issues here. When I spoke about a technical operation, I was referring to the fact that projects will be selected on their technical merits, their viability and whether they have a good chance of attracting the necessary investment. That is what I meant by "technical". As I said, it is not the case that an *a priori* block of money will go to each member state or each individual sector. It is an open situation until the projects are selected. I hope I have answered most of the questions. I am conscious that my colleague, Mr. O'Riordan, has not said a word yet.

Chairman: We will hear from him when we move on to the next part of the meeting.

Deputy Bernard J. Durkan: I would like to seek a quick clarification before we do so.

Chairman: Yes.

Deputy Bernard J. Durkan: The phrase "shovel-ready projects" is an awful expression. I do not say that because it was used by Ms Nolan. I would prefer to refer to them as projects that are ready to go. Is there a recognition of the need for projects that are ready to go? How are such projects defined? Is the relevant timeframe two or three years? I believe that in a national context throughout the EU, it should be in the region of six months. We do not have time. The time is not there. We are losing ground all the time. The EU is losing ground. The investment programme is losing ground. Unemployment remains a threat. I presume the timeframe within individual member states will be six months. I reckon that at most, nine months to a year should be a target for the EU institutions themselves. If they do not set a headline target, nothing else will happen.

Deputy Seán Kyne: I would like to clarify the point regarding the cross-border issue. We have only one border. We all have to be parochial in terms of wanting to see investment in this country. Other countries like Germany and France have multiple borders with partners. If they are submitting road or rail projects that cross over all of these countries, obviously they have a better opportunity than Ireland to secure funding. That is the point I was making about borders. Would that be a fair point? Would it be a fair assessment? That was the concern with T-Trans in the past.

Ms Barbara Nolan: Deputy Durkan asked about shovel-ready projects. We want the fund. The objective is for the fund to be operational by mid-2015. Some good projects that are probably already in the pipeline have not been able to draw sufficient funding for the reasons I have mentioned, including the risk element. Nobody is willing to take the risk factor. The idea is that projects should be ready to go in mid-2015. The Deputy was correct when he said it should be operational within six months. We should be out there getting these projects under way within six months. We want a quick turnaround as well. That is the whole point of having this plan. We want the projects to be up and ready within a timeframe that extends from mid-2015 to 2017. That is the objective.

Deputy Kyne asked about the cross-border element of these projects. There is no rule that says they must cross a certain number of countries. I agree with him that mainland Europe would clearly have a certain advantage in this regard. Of course attention will be paid to the needs of peripheral member states, such as islands, that have particular problems or need different types of interconnections. I would not say that is necessarily going to be a problem.

Annual Growth Survey 2015: European Commission Office Ireland

Chairman: I think we will leave the investment proposal issue there and move on to the 2015 annual growth survey. As members will be aware, next week we will meet the Minister of State with responsibility for Europe, Deputy Dara Murphy, in advance of the General Affairs Council meeting. As a large part of our agenda at next week's meeting will involve a discussion on the annual growth survey, it will be useful to hear the views of members and get a presentation on that matter today. I welcome Mr. Patrick O'Riordan of the European Commission office in Dublin. I have seen him in the audience at previous meetings of the joint committee. This is his first time to speak here as a witness.

Mr. Patrick O'Riordan: That is right. It is a pleasure to be here. I will make some introductory remarks about the annual growth survey. As members will be aware, the survey launches the annual cycle of economic governance, sets out the European Union's economic priorities and gives member states policy guidance for the following year. The role of the EU in this regard is to provide policy direction and country-specific recommendations and to ensure respect for commonly agreed rules. The objective is to ensure that the structural, fiscal and monetary policies are combined in an integrated, growth friendly way to effectively tackle pressing challenges - acting on both the demand and supply sides of our economies. This requires action at all levels of government, from global to European, national, regional and local levels.

For 2015, the Commission recommends that countries pursue economic and social policy based on three main pillars, as alluded to by Ms Nolan, including a renewed boost and focus on investment, a fresh commitment to structural reforms and fiscal responsibility. Simultaneous action is required in all three areas as it is critical to restore confidence and reduce the uncertainty that has been impeding investment and to maximise the strong mutually reinforcing effects of all three pillars working together. This is a new emphasis in the strategy this year. The Commission also proposes to streamline and reinforce the European semester and to improve ownership of the process and simplify the procedures, starting with the semester starting now.

With specific regard to structural reforms, deepening the Single Market is the overriding priority at EU level. For this we need to break down regulatory and non-regulatory barriers in energy, transport, telecoms and the Single Market for goods and services to ensure that the EU regulatory framework supports jobs, growth and investment. The Commission will also prioritise work to make EU laws lighter, simpler and less costly for the benefit of citizens and enterprises. It will further strengthen its regulatory tools such as impact assessment. This relates to the discussion we had earlier and is an important tool to ensure the rules adopted are fit for purpose and appropriate. Employment and social indicators will be increasingly used to give a more rounded view of countries' economies.

At member state level, for 2015 the Commission recommends focusing attention on a number of key reforms. The areas chosen are relevant for all member states, but will be fine tuned to meet the particular issues and concerns of each country. The areas identified for reform are the following: making labour markets more dynamic and inclusive and tackling unemployment; making pensions and social protection more sustainable; developing more flexible product and services markets; improving business investment conditions; enhancing the quality of research and innovation; and improving public administration.

On the fiscal responsibility side, member states have made significant strides to cut their fiscal deficits. Deficits have declined from almost 7% of GDP in 2009 to 3% in 2014. The number of countries under the excessive deficit procedure has decreased from 24 in 2011 to 11 in 2014. However, there is a need to continue with responsible and growth friendly fiscal policies. Meanwhile, countries with more fiscal space should try to promote more domestic demand and stimulate investment.

The European Commission also assessed 16 euro area countries' budgets for 2015, focusing on their compliance with the Stability and Growth Pact. In that respect, the Commission concluded that Ireland is compliant with the provisions of the so-called corrective arm of the excessive deficit procedure and is expected to bring the general government deficit below the 3% of GDP reference value of the treaty in 2015.

In regard to the European semester, the aspects we have mentioned are designed to streamline and reinforce the European semester by giving it a sharper focus and a more political role. A more focused European semester should strengthen the social market economy and increase the effectiveness of economic policy co-ordination through increased accountability and improved ownership by all actors, including national parliaments, social partners and others.

The new economic policy cycle will also simplify Commission outputs and reduce reporting requirements of member states, while making the process more open and multilateral. The discussion on the European semester is also important in view of the mid-term review of the Europe 2020 strategy, which will be presented in time for discussion at the spring 2015 European Council. For the EU to succeed in meeting its jobs and growth challenges, there is a need for broad consensus on the right policy direction and strong stakeholder support for reform efforts. This means that national parliaments, the social partners and civil society at large all need to be more involved in the implementation of policies decided at EU and national levels.

In this context, I have this committee's excellent report here. There is much appreciation for its work in this respect and on developing this political contribution to the mid-term review of the Europe 2020 strategy. I attended the launch event and I believe that the reforms introduced in the European semester process already reflect some of the Committee's aspirations. I trust that more aspects of its contribution will be addressed in the mid-term review proper. The committee's call for moving away from any "centre driven, top-down, non-inclusive approach" is well noted and the improvements outlined in the annual growth survey under discussion today go very much in the direction of the inclusive, bottom-up approach that we all want to see.

We hope and trust that this process will succeed and work as well as it can to help Ireland to strengthen its recovery. I look forward to contributing and working constructively with the committee to that effect.

Chairman: I thank Mr. O'Riordan for his contribution and for his comments on our political contribution to the review of the Europe 2020 strategy. Deputy Durkan attended the Conference of Community and European Affairs Committees of Parliaments of the European Union, COSAC, in Rome on Monday. Ireland had put forward a number of amendments in its contribution, relating to our political contribution and what we agreed here. Some nine out of ten of our proposed amendments were accepted, including all relating to the Europe 2020 strategy. These included the use of social indicators, as set out in the alert mechanism report and the development, where feasible, of indicators that would assess social issues, such as job quality, zero contract hours and poor quality work. The contribution will be sent to the Commission and we are hopeful it will take account of it and bear in mind it is not just the views of this committee, but of the 28 committees of the European Union.

In regard to the three pillar approach of the annual growth survey, Mr. O'Riordan spoke about boosting investment and the need for member states with more fiscal space to encourage domestic demand, with a particular emphasis on investment. Ireland now has an investment spend 40% lower than in 2007. Countries like Germany have more fiscal space and the ability within their current budgets to spend more, but we read and hear they are unlikely to do so. How can the Commission put pressure on these countries to spend more? It is all very well to call for them to invest more, but unless strong pressure is put on them, I cannot see them coming to the table on this. I do not believe "calling" for them to invest will make them do so. What can the Commission do to encourage them to make these investments?

Deputy Bernard J. Durkan: I agree with the Chairman. The work done by the committee in the run-up to the COSAC meeting was reflected in the submissions from other countries also. Everybody seemed to identify the same obstacles and the necessary remediation. The questions we are asking are how are we to go about doing this and what should we prioritise. If the right decisions are taken initially, we will see a quicker and more dramatic response. For example, in European banking recently interest rates have been extraordinarily low. This should provide a great opportunity to investors to invest in job creation projects, but they are slow to do so because of the risk factors already referred to. To what extent have the risk factors been addressed in a meaningful way? Is the proposal likely to activate people?

Another issue that arises in Mr. O'Riordan's submission is the question of ownership. The committee also addressed the issue of the ownership of the European project and of everything that is European. It was interesting that at least one if not two countries at the COSAC meeting referred to the weakness of the eurozone. There was a clear indication on their part that they did not see themselves as taking ownership of anything that was involved in the eurozone - in fact, in the European project, because it is not possible to talk about the eurozone in isolation from the entire euro project. If we do, we become isolationists ourselves. I do not want to go into the precise details of that, but I ask the witnesses the extent to which they think the euroscepticism that is rampant across the European Union at the present time is being addressed or is likely to be addressed in the context of what we are discussing now.

Without a specific project targeting this particular area, we will always have criticism and it is likely to grow. There was a reference earlier to the fact that currently there is criticism and dissident, and diffident, opinion throughout Europe for a variety of reasons, mainly political. However, the political reasons should not impede the progress of the 500 million people in the European Union. To what extent do the witnesses think all the European member states, euro and non-euro, will contribute to the objective of ensuring that structural fiscal and monetary policies are combined in an integrated and growth-friendly way? If there is no cohesion, we cannot proceed in any direction.

I have already referred to the issue of taking ownership. That is hugely important. Even in this country we regularly speak about "them" - the Europeans - and "us". We are Europeans, as is every other person throughout the European Union. The problem is that we do not seem to be able to get around the mental block of taking ownership of that project and saying "we Europeans," as opposed to "them and us".

The next point to which I wish to refer concerns structural reforms, the deepening of the single market as the overriding priority and the identification of the barriers to this. The identification of barriers is of huge importance. If the barriers are not identified properly, there can be no resolution. We can talk around it and we can talk by it, but we will not actually address the subject matter.

The last point I will make concerns national parliaments - as the Chairman knows, we have discussed this at length - and the degree to which their influence will be reflected in the way the European project is progressed. The immediate question concerns the extent to which those whose national parliaments are not pro-European are going to influence the European project. Are they likely to become a barrier to the progression of the project we are now discussing? Are they likely to become an obstacle and as a result impede the progress that we all deserve?

I congratulate the Chairman and the committee for clearly identifying the headline issues in the subject matter for discussion at the COSAC conference. All other countries grudgingly came on board and agreed that these are the issues that are of fundamental importance to the European project.

Deputy Seán Kyne: I welcome Mr. O'Riordan and thank him for his presentation. We recently had a debate during Private Members' time in the Dáil during which it was noted that, while the economy has been improving, there was some concern regarding certain aspects of our society. In some way, Mr. O'Riordan touched on this when speaking on the employment and social indicators. The Government had a role in pursuing that agenda last year during its Presidency. There was debate on the country-specific recommendations last time, and this is the first year in which we have had those recommendations since we came out of the bailout. From where I am sitting, I do not think they have caused a lot of trouble. There has been strong liaison with the Government in terms of the things they are working on anyway. Many of them are part of our programme for government and are a requirement. Some of them were laid down previously by the Troika - for instance, the legal services Bill. Many of them are part of our processes in Government in improving low pay and that whole area. Have other countries experienced problems? There was reference to more national accountability. Has there been a huge demand for this within Ireland? I do not see it being debated in Parliament and I have not seen it raised as a specific issue or problem. Many of the country-specific recommendations, if not all of them, would have, I imagine, cross-party agreement in Parliament in terms of what they are about, which is improving the lot of the people and such issues.

Areas of reform were mentioned. There are two in particular. Reference was made to making pensions and social protection more sustainable. What is called the pensions time bomb is a cross-Europe issue and I suppose it is something that needs to be tackled in this country. I am sure other countries also have particular concerns about this. The second area is improvement of business investment conditions. With the co-operation of the German government and the German Minister for Finance, an €800 million package was announced a couple of weeks ago for SME investment. We have gone a long way towards ensuring that issue is sorted. Access to finance is an issue that has been raised consistently with regard to SMEs. Hopefully that package will alleviate their concerns.

Deputy Eric Byrne: We could all collectively feel very proud for being in compliance with fiscal responsibility as outlined by Europe. I am delighted that the employment and social indicators are going to become increasingly important, and these will give us a clear view of the state of each country's economies. However, there is a bit of a mystery attached to the degree of discontent and disquiet that exists in the Republic, for example, at this very point in time. We have passed all the exams as laid out for us and we are praised for being in conformity with the fiscal treaty. Our deficit must be down to 3% of GDP next year, and we are going to achieve this. We comply with the Stability and Growth Pact. A statistic was given that indicated that the number of countries under the excessive deficit procedure had decreased from 24 in 2011 to 11 in 2014. Can Mr. O'Riordan give us a flavour of those? Are there 11 countries that are as yet not compliant?

Notwithstanding the fact that we are compliant with the fiscal treaty and notwithstanding the fact we have a 5% growth rate this year and will have perhaps a 5% rate next year, which is completely disproportionate to growth levels as anticipated by Europe as a whole, the current economic climate in Ireland is marked with much discontent. I see in today's edition of *The Irish Times* that panic almost is setting in in Europe, in which figures for growth and inflation are being revised downwards. Serious questions are being asked. Given the fact that we are in this growth scenario, that we are in conformity with all the regulations and that we are being praised for all of these things, are we in a bubble and is it the case that something desperate is going to happen the economy some time after next year?

Chairman: Our economy?

Deputy Eric Byrne: Yes. Are win a bubble that is going to explode, say, after next year?

Senator Aideen Hayden: I apologise for being late. I am coming from another meeting. On my way down the stairs I got a media alert stating that the European Central Bank had slashed the growth and inflation figures for Europe quite significantly. As if things were not bad enough, this is the icing on the cake. To echo what Deputy Durkan stated, one of the things that struck me most - I also attended the COSAC meeting in Rome - was a considerable unease that is growing across the European Union members and a diversity of opinion on where Europe is going and what types of intervention are necessary. It was very disconcerting to listen to the representations of the Greek and Italian members, particularly the Greek contribution, about the situation in their countries and the Italian view that its economy was not in a very difficult position. There seemed to be almost a two-tier approach, with some countries being determined to stick to fiscal rectitude, while others were effectively stating Europe was stagnating, moving into decline, increasingly marginalised in the world and was not and would not be a major player. There was a sense that there was a lack of solidarity within the European family, so to speak, between certain northern European members and the southern European members about their priorities for Europe.

It is very depressing that 120 million Europeans are experiencing poverty and that the number has increased since the Europe 2020 strategy began. This may not be a fair comment, but the strategy relies too much on structural reforms such as deepening the Single Market – there has been a single market since 1992; breaking down regulation in certain areas; seeking greater efficiency; making labour markets more dynamic and ensuring sustainability. It is all very worthy, but there is a lack of acceptance that many European countries, including this one, want a genuine growth package that will seriously stimulate the European economy in the way the Federal Reserve was able to stimulate the US economy and the Bank of England was able to stimulate the UK economy. The figures from the Central Bank do not show growth; we are moving into stagnation. Questions were put about the 3% cap on expenditure and why we could not exclude certain forms of capital expenditure from the cap were-----

Chairman: We discussed that issue before the Senator came in. The good news is that the Commission believes they should be excluded from the cap. I made the very point the Senator has made, but I am not sure every government would agree to it.

Senator Aideen Hayden: That is very good news. The issue came up several times and would be a very important change from Ireland's perspective.

Representatives of the Fiscal Advisory Council are appearing before the Oireachtas Joint Committee on Finance, Public Expenditure and Reform. For the sake of argument, I see myself as Italy and the Fiscal Advisory Council as Germany. Last year it recommended that Ireland cut its budget by €3.2 billion and we cut it by €2.5 billion against the recommendation and the economy grew. This year it recommended that we cut it by €2.2 billion and not only did we not do this, but we increased expenditure by €500 million. To date, we have taken in more than €1.1 billion that we did not expect to receive. That is an Irish example that says one can push people too far and that there comes a point when one has to let go and stimulate. Just as we had to stimulate domestic demand the European Union has to stimulate demand.

Mr. Patrick O'Riordan: The Commission has only been in office for three weeks, but it has come up with a massive investment plan. It could hardly do more to put out in front its recognition of the need to stimulate demand and encourage investment. New funds have not suddenly been allocated to the European Union which has 1% of the total budget for all public expenditure in Europe. It cannot suddenly manufacture money. With the resources at its disposal, it has done the maximum in an incredibly short period to put together this programme in order to stimulate, promote and encourage more investment.

The Senator has mentioned the countries that have more fiscal space. As Ireland gets its country-specific recommendations, CSRs, in a number of areas, it is in this excessive deficit procedure because our deficit needs to come down. Those countries that have more space are encouraged through the CSRs to address the issue. That is the mechanism. It is a partnership approach which has been reinforced in the streamlining being introduced. With the involvement of more actors, it is important to have ownership. It is not a case of recommendations that this should be done by an outside body but of getting everybody to agree in discussions. There are bilateral meetings between the Commission and member states. The one with Ireland is taking place this afternoon. There is continuous engagement and a partnership between the Commission and member states to discuss the challenges at a country-specific level and see what needs to be done to address them.

In response to Deputy Bernard J. Durkan's point about ownership, it is crucial and recognised in Brussels. Every effort is being made to increase it. I can only endorse and welcome what he has said. We are Europeans and these European issues and challenges concern us all. The CSRs for Ireland might involve a degree of homework or pointing to things that need to be addressed. The benefit of the process for Ireland in all of these recommendations being issued to all of the other countries is perhaps just as significant as, if not more so, the recommendations issued to other countries. Growth, investment, a reduction in employment, increased demand for our exports and so on in other European countries can have an enormous impact on Ireland's growth prospects. Irish Ministers and officials discuss the economic challenges and issues in all countries, which is an important benefit of the process. I compliment the committee on its contributions to the Conference of Parliamentary Committees for European Union Affairs of Parliaments of the European Union, COSAC, and its efforts and engagement. It is remarkable that the policies and ideas it has developed are coming into, and being reflected in, European policies.

In terms of the need to activate investment, the approach taken here, in identifying the challenges in different countries, involves seeing where the problems and blockages are to encourage creating the mood and committees such as this one to discuss the investment programme across Europe. It is bringing investment back onto the agenda which will I hope encourage people because there is a lot of money that is not being used productively and there is enormous scope to do this.

I acknowledge what Deputy Seán Kyne said about the social and employment concerns that had rightly been flagged and prioritised during the Irish Presidency. It is welcome that they are reflected here. The CSRs are designed to address issues where there is room for progress and scope to do things. There is no point proposing ridiculous things that have no chance of being achieved, or things that are already being done. The challenge is to see where reform is needed and have collective consensus in prioritising several areas. It is not possible to list all aspects of Government policy. It is a case of working in partnership with the governments to see what is the collective opinion of the Commission and then having it discussed with the other European partners as to where progress can be most useful and effective. I know the Commission has recognised and appreciated the co-operation with the Irish Government and the Irish authorities throughout the entire process and that is continuing.

On the question about investment in small and medium business, as the member said this has been one of the key challenges and issues. We know there are problems on both the supply and the demand sides and this has been discussed at length. Ireland has taken great steps with the public programmes and with the involvement of KfW. Funds are on the table and we hope now that as demand increases in the economy there will be more call for using these funds and that the issue becomes more one of demand - having enough SMEs demanding money - and that there is sufficient money available for them to expand and invest.

I take note of Deputy Byrne's points about the degree of compliance. Ireland is one of five countries that were fully compliant as regards the budgetary review process. A number of other countries are partially compliant so there is a different gradation of responsiveness, of degrees of compliance. We know there are problems in some areas that remain to be addressed. There is specific consideration analysis of the budgets for each particular member state. The process is ongoing for some of them - that is up to March of next year. Some countries will be reviewed at that time to see their degree of compliance.

Growth needs to be stimulated across Europe. I do not think Ireland is in a bubble situation.

We know that the growth has been very strong this year. The projections set out in the Irish budget have been considered to be compliant. There is obviously a debate around the degree, the exact growth figure and so on, but the expectation is that growth continues on a sound, solid and sustainable basis for the next couple of years. One can never tell what is around the corner.

Deputy Eric Byrne: My question was to find out if our growth was disproportionate to the growth in Europe. We have come from a very low base. When I spoke about the bubble I was wondering if the European Commission has concerns about what is happening in Europe. I refer to the crisis referred to by the ECB. Is a sustainable growth possible in the presence of a decline in the rest of Europe? In that sense are we in a bubble?

Mr. Patrick O'Riordan: It has been a very great turnaround for Ireland from being in the programme to going to the top of the European league table of growth. It is a phenomenal turnaround and we can only rejoice in it and try to get other countries growing - ideally as fast but I do not think that will happen - so that people will realise their growth potential which they are not doing at the moment. The areas identified in the growth survey highlight some of the problems and the reason that is not happening. Everybody around the world is trying to play a part in encouraging growth. The Deputy referred to the roles of central banks which have been raised in discussions. Everybody must play a part; there is no silver bullet or magic formula. Hopefully, European growth will approach Irish levels in the next couple of years because that is what we all want to achieve.

Other points raised by members were to do with euroscepticism.

Ms Barbara Nolan: I wish to return to two points. I refer to Senator Hayden's comments about lack of solidarity and the point about Euroscepticism. I will deal first with the lack of solidarity. I was quite surprised at that comment because in my opinion Ireland has been shown much solidarity as a result of the crisis. If Ireland had not received EU and IMF assistance it would have been forced to close its schools and hospitals and to stop its social welfare system. Nobody was prepared to loan to Ireland. The EU loaned two thirds of the money and the IMF loaned one third. I thought there was remarkable solidarity which ensured that the country could keep functioning normally and it could continue to protect the most vulnerable from being left to one side. It kept the schools open and the public system working. There was also solidarity shown by countries outside the eurozone. Bilateral loans were given by a number of countries such as the UK, Denmark and Sweden. There has been remarkable solidarity shown at a time when there was no access to normal borrowing in any market -----

Senator Aideen Hayden: I need to clarify my point which I was making in the context of the COSAC meeting in Rome. I specifically referenced Greece and Italy. I was never disputing the solidarity shown to Ireland although other people might dispute it in the context of the impact of various ECB letters sent at certain points in time on our sovereignty. I specifically reference comments made by Greece, by Italy and by Cyprus about their experiences and the level of solidarity they believe they are experiencing within the European Union.

Chairman: I remind the Senator that we discussed that it may be appropriate to hear from the Greek ambassador at some stage in the near future in order to have an update on the situation in Greece, not just about the economic crisis but also about the extenuating circumstances such as the influx of migrants which is a particular issue in Greece. It might be appropriate for the committee to hear from the Greek ambassador in the near future.

Senator Aideen Hayden: I think it is important to clarify for Ms Nolan the exact context of my references; they were not to do with the Irish economy. Were I going to mention the Irish economy and solidarity I might be mentioning issues such as potential pressure that might have been put on Ireland but as I am not speaking about the Irish economy, I am not mentioning those matters.

Ms Barbara Nolan: That is understood.

On Deputy Durkan's point about Euroscepticism, I agree it is a significant problem which seems to be spreading. It is linked to a disillusionment about politics in general. I attended a conference last week at which Professor Brigid Laffan from the European Institute in Florence had a very interesting graph which showed that across Europe there is a significant decline in trust in both national governments and in the European Union. In most cases, there is a greater decline in trust in the case of national governments than in the European Union, with the exception of possibly two or three countries, including Germany, where there is more confidence or trust in the national authorities than in the European Union. The general trend was extremely depressing.

One of the ways in which we can combat this trend is to make an effort to turn the economy around. The situation could be improved if economic conditions improved and things were going better in the economy and if unemployment levels decreased. The investment plan hopes to achieve these aims. It would also help if national politicians returning from meetings in Brussels would stop Europeanising failure and nationalising success. This is frequently the outcome at various European Council meetings and we see it all the time. We are the European Union; it is not something extraneous to us. The European Union is only the sum of its parts, the member states. We all make up the European Union. It would help if it could stop being treated as some extraterrestrial body without any particular ownership.

Deputy Bernard J. Durkan: I agree entirely with the points made by Ms Nolan. However, to what extent are the European institutions totally focused on those issues? What are the causes? What is motivating those who are Eurosceptics in all parts of Europe? Is it a case of disillusionment with all kinds of democratic politics? That is a dangerous place to go. Do they prefer government by public acclamation which is another dangerous way to go? To what extent have the European institutions identified the cause or causes of this cynicism and the scepticism across the rest of Europe?

Ms Nolan correctly identified that it is convenient for national politicians to blame Europe for everything, to walk away and say it is a European problem. The reality is that every single directive is referred back to member state governments, parliaments and institutions, for them to make the corrective measures if they wish to do so. Unfortunately, the two events are not always related and connected in the way they should be. It is a little like voting in the secrecy of the ballot box. Sometimes people detach themselves from the possible consequences - I will not go further - and we could be coming to a stage in Europe where people are about to do that. I hope the European institutions, individually and collectively, are focusing on this situation. There will be serious consequences because every single emphasis, that I have noticed, emanating from some member states in recent years seems to demonstrate their pulling away from Europe and becoming more nationalistic in their approach. That is a pattern that Europe has followed in the past with great and severe consequences and for those who profess a faith and confidence in that kind of attitude they would be well warned in advance. I want us to ensure there is a particular focus on the issues being used by people to break up modern Europe.

Chairman: On that note I shall call today's proceedings to a close. I thank Ms Nolan and

Mr. O'Riordan for coming in. It is always nice to see them and no doubt that we will see them again in the near future. We look forward to seeing the work programme in the next few weeks.

The joint committee adjourned at 3.45 p.m. until 2 p.m. on Tuesday, 16 December 2014.