

## The future of EU finances

The European Commission has completed its series of reflection papers on the future of the EU, with a document that analyses how the EU budget could evolve in the coming years to address current and new challenges. The paper should help shape the proposals, due in the coming months, for the next Multiannual Financial Framework of the EU, for the period from 2021 on.

### The debate on EU budget reform

While the EU budget has evolved over time, in recent years the emergence of new challenges has revived the debate on its further reform. In 2013, the European Parliament included the creation of an interinstitutional High-Level Group tasked with a thorough review of the EU financing system among the conditions for its consent to the 2014-2020 Multiannual Financial Framework (MFF) of the EU. The recent [reflection paper on the future of EU finances](#) takes into account the conclusions and recommendations that the High-Level Group, appointed by Parliament, Council and Commission, [presented](#) earlier this year. In addition, the document is part of the wider debate on the future of the EU that the Commission kick-started with a [White Paper](#) in March 2017, which has since been complemented with other reflection documents on the [social dimension of Europe](#), [globalisation](#), the [economic and monetary union](#), and [defence](#).

### Some key principles for a reform

The reflection paper on EU finances identifies key principles that should drive any reform, irrespective of the way forward that the EU decides to pursue. In particular, these principles are: 1) concentrating resources on the policy areas with the highest EU added value, selected through criteria such as Treaty objectives and obligations, economies of scale, and public goods with a European dimension; 2) continuing simplification efforts with a view to further streamlining implementation; 3) keeping the creation of tools outside the EU budget to a minimum so as to ensure democratic accountability and transparency; and 4) strengthening the flexibility provisions with a view to reducing the rigidity, inherent in a framework covering many years, which makes it harder to tackle unexpected challenges. The text adds that, with the withdrawal of the UK from the EU, the revenue side of the budget should be simplified by eliminating all current correction mechanisms.

### Five scenarios with different financial implications

The March 2017 White Paper outlined five scenarios for the future of the EU: 1) Carrying on with the current reform agenda; 2) Doing less together in all policy areas; 3) Some Member States do more in specific areas; 4) Radical redesign; and 5) Doing much more together across all policy areas. The reflection paper analyses the impact that each scenario would have on the EU budget in terms of overall volume, revenue system and allocation of resources across the main spending areas (see Table 1, below), showing how the financial implications would differ significantly. Traditional spending areas such as cohesion and agriculture have lower resources and/or shares of the total in all scenarios, other than the fifth ('doing much more together'). Conversely, priorities such as competitiveness, security, defence, migration and external action get higher resources and/or shares of the total in all scenarios, except the second ('doing less together'). The reflection paper concludes that the EU will certainly change after 2020, and that its budget, seen as a tool to achieve the agreed objectives, will evolve accordingly, depending on the path that is chosen.

### A sixth scenario for the future of Europe and the next MFF?

In August 2017, [addressing](#) the EU ambassadors' conference, Commission President Jean-Claude Juncker ruled out the option of going back to a high-level free trade area stage, considering that the second scenario of the White Paper does not correspond to the EU's vocation. In his opinion, a sixth scenario will eventually prevail, but he did not provide details on it. The paper on EU finances points out that a combination of elements from



different scenarios is also a possible outcome. The proposal for the next MFF, which is due by the end of this year but is likely to be postponed to mid-2018, should show the result of the broad debate that the White Paper process has triggered.

**Table 1: Budgetary impacts of the Commission's five scenarios for the future of Europe**

SCENARIOS	1 Carrying on	2 Doing less together	3 Some do more	4 Radical redesign	5 Doing much more together
<b>POLICY PRIORITIES</b>	Taking forward current reform agenda	Mainly financing of functions needed for the single market	As in scenario 1; additional budgets are made available by some Member States for the areas where they decide to do more	Financing of priorities with very high EU value added	Doing much more across policy areas
<b>VOLUME</b>	Broadly stable	Significantly lower	Somewhat higher	Lower	Significantly higher
<b>COMPETITIVENESS</b>	Slightly higher share	Same as in scenario 1 but significantly lower amount	Same as in scenario 1	Higher share	Higher share
<b>ECONOMIC, SOCIAL AND TERRITORIAL COHESION</b>	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
<b>AGRICULTURE</b>	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
<b>SECURITY, DEFENCE, MIGRATION</b>	Higher share	No funding	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
<b>EXTERNAL ACTION</b>	Higher share	Lower amount	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
<b>ECONOMIC AND MONETARY UNION</b>			Macroeconomic stabilisation function for euro-area Member States		Macroeconomic stabilisation function and a European Monetary Fund
<b>REVENUE</b>	Current system without rebates; other sources of revenue or fees finance the EU budget	Current system without rebates	Same as scenario 1; plus new policies financed only by participating Member States	Scenario 1 further simplified; new own resources	In-depth reform beyond scenario 4; new own resources finance significant share of the EU budget

Source: European Commission.