

Outlook for the special European Council meeting of 17-18 July 2020

Based on an updated 'negotiating box' presented by the President of the European Council, Charles Michel, on 10 July, the special meeting of the European Council on 17-18 July will aim at finding a political agreement on the EU recovery fund, entitled 'Next Generation EU', and the multiannual financial framework (MFF) for the 2021-27 seven-year financing period. It will be the first meeting of EU Heads of State or Government to take place in person since the coronavirus outbreak. The last such physical meeting of the European Council – held on [20-21 February](#), prior to the crisis – failed to reach a political agreement on the EU's long-term budget. The revised negotiating box, taking into account the Commission's updated MFF proposals – adopted alongside, and linked to, its recovery fund proposals – envisages a reduced MFF amounting to €1.074 trillion. Furthermore, Charles Michel's proposals maintain the balance between loans and grants for the recovery fund proposed by the Commission. While a lot of pressure is being applied to find an agreement urgently, it remains to be seen whether EU leaders will agree a deal at this meeting or whether yet another meeting will be needed. In any case, the current MFF negotiations have already taken much longer than was originally intended, potentially jeopardising the timely launch of the EU's new spending programmes.

1. Consultations aiming at a compromise on the 2021-27 MFF and the recovery plan

Following the video-conference meeting on 19 June – which was the first occasion for Heads of State or Government to discuss and obtain clarifications on the proposals put on the table by the Commission on a revised MFF and on the recovery fund – Charles Michel [launched a series of consultations](#) with all the Member States, thus opening the negotiation phase.

When presenting the results of the 19 June meeting, Mr Michel also expressed awareness of the need to swiftly reach political agreement on the long-term budget. As the President of the European Parliament, David Sassoli, [recalled](#) when addressing that meeting, a political agreement in the European Council, once reached, does not end the negotiations, which can only be concluded with an agreement between the Parliament and the Council. A further delay in the adoption of the next MFF regulation could indeed negatively impact the timely launch of new EU programmes, and thereby the recovery of the EU economy.

2. Charles Michel's new 'negotiating box'

Based on the consultations [held](#) over recent weeks, on 10 July, Charles Michel [presented](#) his updated 'negotiating box' – a document aimed at facilitating the gradual completion of negotiations to prepare the final deliberation in the European Council. This replaces the earlier one he had presented on 14 February 2020, which was unable to generate the necessary consensus.

As stressed during his press conference, the latest Michel proposals are firmly 'grounded in the political priorities of the European Union, climate transformation, digital agenda, European values

and a stronger Europe in the world', as outlined in [2019-24 EU Strategic Agenda](#). They aim at ensuring recovery following the coronavirus crisis and at mitigating the economic and social consequences thereof. Thus, the current proposals are built around three broad objectives: 'first convergence, second resilience and (then) transformation. Concretely, this means: repairing the damage caused by Covid-19, reforming our economies and remodelling our societies.'

The revised negotiation package addresses six issues: i) the size of the MFF, ii) the size of the recovery fund, iii) the existence and size of rebates, iv) the balance between grants and loans, v) the allocation criteria for funding, and vi) the link between the recovery fund, its governance and the role of different institutions as well as national reforms.

1) Overall size of the MFF: President Michel's current compromise proposal envisages a reduced MFF of €1.074 trillion, in comparison to the Commission's [proposal](#) of €1.1 trillion. It remains very close to the figure [presented](#) by the European Council President at the special European Council meeting in February. However, the proposed size of the long-term budget falls far short of the European Parliament's ambitions for the Union for the next seven years. As underlined in a [joint letter](#) to the European Council from five of the seven political groups in the European Parliament ahead of the 19 June meeting, 'the Union must meet its objectives and tackle the challenges thrown at it by the 21st century. The only way forward is to adopt a robust MFF for 2021-2027. [However,] the revised Commission proposals on the next MFF fall short [on] a number of commitments and ambitions. We will continue to defend Parliament's position in the upcoming negotiations and we will not compromise on the future of the European Union'. Speaking to EU leaders at that meeting, President Sassoli stressed that the Parliament considered the Commission's ambitious proposal as a starting-point and 'will accept no retreat from this initial position, but rather seek to improve it'.

2) Overall size of the recovery instrument: According to Charles Michel, the recovery fund would remain at €750 billion, as proposed by the Commission.

3) Rebates: The negotiating box also envisages the continuation of the rebates or 'budget correction mechanisms as lump sums' for Austria, Germany, Denmark, the Netherlands and Sweden. The European Commission proposed to phase out the current rebates over time, whilst the European Parliament has [called](#) for 'the abolition of all rebates and corrections'.

4) The balance between loans and grants: The revised negotiating box aims to maintain the balance between loans and grants as proposed by the European Commission, i.e. €500 billion in grants and €250 billion in loans. As the grants include sub-categories relating to budgetary guarantees, in practice this translates into a three-way split of 58 % grants, 33 % loans, and 9 % budgetary guarantees (see EPRS Briefing on [Next Generation Europe](#)). As emphasised by the leaders of five political groups in the above-mentioned [joint letter](#) to the European Council, 'we believe that [€]500 billion in grants is the bare minimum to provide a credible European response to such a huge crisis. We oppose any reduction'.

5) The allocation criteria for the Recovery and Resilience Facility (RRF): Charles Michel has [reiterated](#) that the objective is to 'establish a real link between the Recovery Plan and the crisis', and that funding should primarily go to countries and sectors most affected by the crisis. Therefore, 70 % of the RRF will be committed in 2021 and 2022 in accordance with the Commission's allocation criteria. The remaining 30 % will be committed in 2023, taking into account the drop in GDP in 2020 and 2021. The total envelope should be disbursed by 2026.

6) Governance/conditionality: The last element of the revised negotiation package has three components:

- The **reform and resilience national plans:** Based on the Commission's country-specific recommendations, Member States will be required to prepare national recovery and resilience plans for 2021-23, in line with the European Semester. The plans will be reviewed in 2022, and the assessment of these plans will be approved by the Council by qualified majority vote (QMV), on a proposal by the Commission. The European Council

President's proposal would give a stronger role to the Council throughout the process, with a view to ensuring better implementation and a greater sense of ownership. This clearly implies limited involvement of the European Parliament in the process, and a lack of parliamentary oversight of implementation. As [stressed](#) by the five main political groups in the European Parliament, 'we ... will continue to strive for the full involvement of Parliament in the establishment and delivery of the Recovery Instrument with the aim of increasing its transparency and democratic accountability. We will use all means at our disposal to achieve this objective'.

- **Climate change:** In order to reach the EU objective of climate neutrality by 2050, Charles Michel proposes to earmark 30 % of funding for climate-related projects. It is worth recalling that the topic of climate change was, prior to the pandemic, due to be discussed at the June 2020 European Council meeting, but that the point was [absent from the video-conference discussions](#). This thus postponed to an unspecified point in time the debate on the end of the temporary exemption granted to Poland in December 2019, when the country announced that it could not commit to 'the objective of achieving a climate neutral economy by 2050'. Securing the green envelope in the form proposed by the European Commission in May 2020 might enable Poland to commit to the 2050 climate objective, since the country would be among the top three beneficiaries of the Just Transition Fund.
- **Rule of law and European values:** President Michel proposes to establish a strong link between funding and respect for governance and rule of law, thus maintaining his proposal from February on a new budget conditionality, which would allow the Council to adopt sanctions in the form of withdrawal of funding by QMV. However, this new budget conditionality has been substantially weakened in comparison to the Commission proposal, which envisaged that a recommendation on measures to be applied to a failing Member State would be subject to reverse qualified majority in the Council (i.e. a qualified majority would be needed to block the proposal, rather than to approve it). In this context, Mr Michel also proposed to 'increase the funding for Rule of Law and values projects, through additional financing for the European Public Prosecutor's Office and the Justice, Rights and Values Programme, with a special focus on disinformation and to promote media plurality'. He stressed that the framework would result in 'a system of permanent rule of law monitoring'.

Other elements of the negotiating box

- **Repayments and own resources:** Charles Michel proposes that repayments should start earlier, in 2026 rather than in 2028 as proposed by the Commission. In his view, this would enhance the pressure to introduce new own resources. He suggests that such own resources be introduced in three priority areas: plastic waste, a carbon adjustment mechanism and the digital levy. Subsequently, the Commission should come back with a revised proposal on the emissions trading system (ETS) and work would continue on a financial transaction mechanism. The introduction of new own resources is a crucial point for the European Parliament: as stressed in the joint letter from five political groups, 'the Parliament would only give its consent to the next MFF if a basket of new own resources were to be introduced'.
- **New Brexit reserve:** The negotiating box also includes a new Brexit reserve of €5 billion to counter unforeseen consequences in the most affected Member States and sectors.
- **Health:** Funds for RescEU and health would increase in line with the Commission proposal, in order to respond to coronavirus and its consequences of.

- **Cohesion funding:** Charles Michel has also stated that, whilst his revised MFF proposal was lower than the Commission proposal, the allocations for cohesion money should remain at the same level. Thus, his negotiating box also includes cuts and scaling back of policy areas such as Horizon Europe (the research programme) and Erasmus+. This approach goes against some important priorities of the Parliament, and notably announcements made by President Sassoli after the June 2020 meeting, with 'the Parliament aiming to increase the allocation for the Erasmus+ programme.

3. Recent developments

On 8 July, the President of the European Commission, Ursula von der Leyen, invited the Presidents of the European Parliament, David Sassoli, the European Council, Charles Michel, and the Chancellor of Germany, Angela Merkel, President-in-Office of the Council of the EU, to an [Article 324 TFEU](#) meeting, to discuss the state of play in the negotiations on the next MFF and Next Generation EU. The four Presidents [stressed](#) that it would be essential for EU Heads of State or Government to reach an agreement at the upcoming European Council meeting, in order to allow the inter-institutional negotiations to start. They agreed to stay in close contact throughout the coming weeks and months. A similar Article 324 TFEU meeting took place on 27 June 2013, during the [negotiations on the 2014-20 MFF](#). Two significant differences ought to be pointed out. First, the earlier meeting only included the presidents of three institutions (Martin Schulz for the Parliament, Enda Kenny for the Council and José Manuel Barroso for the Commission) and did not include the President of the European Council (then Herman Van Rompuy). Indeed, the Treaty does not mention the European Council with respect to the MFF, and provides for discussion within the institutional triangle. Second, the earlier meeting took place after a political agreement had been found in the European Council meeting of 7-8 February 2013.

On the same day as that four-way meeting, Charles Michel also outlined the conclusions of the 19 June 2020 European Council meeting during the plenary session of the European Parliament, and discussed with MEPs the preparation of the European Council meeting of 17-18 July. During the debate, MEPs [emphasised](#) the crucial importance of adequate financing for the long-term budget, and the critical need to introduce new own resources for the EU budget, without which the Parliament would not give its consent. President Sassoli [reiterated](#) that 'for the European Parliament, the proposal of the European Commission is not a point of arrival, but the minimum basis from which to start. We cannot and must not go backwards. We will fight for the success of this proposal with all the means at our disposal.' MEPs [reminded](#) Mr Michel that 'a deal in the Council is not the final deal', as the Parliament will have a final vote before the 2021-27 MFF can enter into force.

For an overview of the process of adopting the next MFF and discussions to date, please see the [EPRS blog](#).

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