Background

Conference on the EU Financial Framework 2014-2020

The EU's future financing debate will be pursued on Thursday 22 March, at a conference of representatives of the European Parliament, the European Commission, the Danish Presidency, EU Member States and their national parliaments. This note provides some background information on the EU's Multi-annual Financial Framework and Parliament's stance on the EU's long-term budget.

Is there a need for new sources of income for the EU budget? Is the Union, in the midst of an economic crisis, ready to support its ambitious aims as set out in the EU 2020 strategy? What should it do in traditional policy areas like agriculture and regional policy? And how can it get the maximum benefit from every euro spent from the EU budget?

These and other questions will be debated at the conference, with the Commission's legislative proposal of 29 June as a starting point.

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What is the Multiannual Financial Framework (MFF)?

The multiannual financial framework (MFF) sets out the EU's long-term (7-year) budget plans. It lists long-term policy priorities, and sets annual maximum amounts ("ceilings") to be spent on each one. The Lisbon Treaty requires the EU to keep spending within these ceilings in each annual budget, so as to ensure that spending remains within the preset limits of the EU's income, its "own resources".

How is the MFF decided?

The MFF, sometimes also called the "financial perspectives", is decided by the European Parliament and the Council of Ministers. The exact procedure for deciding it is laid down in the (Lisbon) Treaty, which requires the European Parliament, the Council and the Commission to "take any measure necessary to facilitate its adoption" (Article 312:5).

The Lisbon Treaty also stipulates that the presidents of the three institutions are to hold "regular meetings", convened by the Commission (Article 324) on the MFF.. These meetings started early in 2011 and will continue until the MFF is finally approved. Formally, the MFF is approved by a unanimous decision of the Council of Ministers, after Parliament has given its blessing ("consent").

How is the EU budget funded?

The EU Treaty rule that "the budget should be financed wholly from own resources" (Article 311) has been "temporarily" disregarded since the 1980s, leading to a situation where 75% of the EU's income comes from sources other than own resources.

Despite the name, the "own resources" are very specific sources of EU income, i.e.. VAT and custom duties, agricultural duties and sugar levies (the "traditional" own resources).

Whereas the VAT-based contribution now accounts for 11% of revenue and the traditional own resources for 13%, the lion's share, 75%, comes from national contributions based on Gross National Income (GNI).The remaining 1% comes from fines imposed on companies that are in breach of competition law and taxes on EU staff salaries.

How are "own resources" decided?

"Own resources" decisions, which may establish new categories of own resources or abolish existing ones, must also be unanimously approved by the Council, but the procedure here differs in that Parliament does not need to give its consent but is only consulted.

Furthermore, these decisions must also be approved in accordance with the respective constitutional requirements (Article 311) in the EU Member States, in effect requiring "double unanimity". Arguments over "national rebates" are also settled by own resources decisions.

What was the role of Parliament's SURE Committee?

Parliament's Policy Challenges (or "SURE") Committee examined "the policy challenges and budgetary resources for a sustainable European Union after 2013". It had six key tasks:

- to define what policies should be financed from the EU's next long-term budget framework,
- to estimate how much money the EU will need to achieve its aims,
- to define the duration of the next long-term budget framework (this has traditionally been seven years but MEPs want to adjust it to match the mandates of the Parliament and the Commission),
- to propose a new structure for future long-term budget frameworks,
- to draw up guidelines on how resources should be distributed within and between different policy categories ("headings") of the EU budget, and
- to specify the link between a reform of the EU's financing system (own resources) and a review of expenditure.

The status of Parliament's SURE report

The committee's report, drafted by Salvador Garriga (EPP, ES), is not legally binding, and was not Parliament's final response to proposals from the Commission, the Council of Ministers or the European Council. These proposals were tabled after the the SURE report was approved in Parliament, in June 2011, with 468 votes in favour, 134 against and 54 abstentions.

Next steps

Parliament was the first EU institution to set out its position on the next long-term budget. On 29 June, the Commission tabled two proposals, one on the next MFF and the other on own resources. Negotiations on these proposals have started. The current multi-annual financial framework ends in 2013.

Some key elements of the SURE report

Fears for research, infrastructure and other policies

MEPs feel that freezing future budgets at the 2013 level "is not a viable option". An increase of at least 5% over the 2013 level - as they propose - would mean that the EU budget would be roughly 1.11% of the EU's total GNI, compared to the 1.06% expected for 2013.

MEPs urge the Member States who advocate a frozen or reduced long-term budget to state exactly which policy priorities they want to drop in order to make room for a budget cut. Parliament fears that budget restrictions could jeopardise the already agreed boost for research and innovation (from today's 1.9% of GDP to 3%) as well as investment in infrastructure, foreign policy and enlargement.

Regional policy (cohesion and structural funds) and farm spending should remain at current levels, says the resolution. Regarding regions whose GDP per capita stands at between 75% and 90% of EU GDP, MEPs urge the Commission to establish an intermediary category for the next budget period to give these regions a clearer status and more security in their development. Furthermore, investment in energy infrastructure should go up. Savings could possibly be made on EU administration, for instance, if the European Parliament were to have a single seat.

New resources, no more rebates

MEPs criticise the current funding system, which relies almost entirely on national contributions and has become extremely complex. The EU Treaty says that the EU-budget "shall be financed wholly from own resources". The current funding method places disproportionate emphasis on net balances between Member States, contradicts the principle of EU solidarity, dilutes the European common interest and largely ignores the advantages of financing policies at EU level, they argue.

A system of real own resources would be "fairer, more transparent, simpler and equitable", say MEPs, whilst at the same time stressing that budget reform need not affect the size of the budget and would not increase the overall tax burden on citizens. They also call for an end to the "rebates, exceptions and correction mechanisms" that have accumulated within the current system.

Flexibility

One problem with the current MFF is the lack of flexibility it allows within annual budgets. If something new or unexpected comes up, it is hard to adapt the budget to accommodate it. MEPs would therefore like to see a "global MFF margin" to be created, consisting of unused margins, de-committed and unused appropriations from the previous year.