Background

An introduction to the EU's Multi-annual Financial Framework

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The EU's Multi-annual Financial Framework (MFF) sets out spending ceilings for each policy category or "heading". The MFF, also known as the "Financial Perspectives"), helps to ensure that EU funding is spent in an orderly fashion. It also limits overall spending to a percentage of EU Gross National Income (GNI).

Currently overall annual expenditure must not exceed 1.23% of EU GNI. However, this limit has never yet been reached.

The EU's annual budgets are currently divided into five spending categories, called headings:

1. Sustainable Growth

1A: Competitiveness for Growth and Employment

1B: Cohesion for Growth and Employment

(This heading includes regional policy)

2. Preservation and Management of Natural Resources

(This heading includes agriculture and environment)

3. Citizenship, Freedom, Security and Justice

3A: Freedom, Security and Justice

3B: Citizenship

4. EU as a global player

5. Administration

When budgets are being discussed within the EU institutions, one often hears, for example, "heading 4" or "H4", rather than "foreign affairs budget". Each heading is divided into "budget lines", each of which can be drawn upon for a specific purpose.

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How is the MFF decided?

The procedure for deciding the Multi-annual Financial Framework is laid down in the Treaty on the Functioning of the EU. The treaty requires the European Parliament, the Council and the Commission to "take any measure necessary to facilitate its adoption" (Article 312:5), and stipulates that the presidents of the three institutions shall hold "regular meetings", at the initiative of the Commission (Article 324).

These meetings started early in 2011 and continued until the MFF was finally approved at the November 2013 plenary session. Formally, the MFF is approved by a unanimous decision of the Council of Ministers, but not before Parliament has given it its blessing ("consent") by the votes of half of its constituent members plus one.

How is the EU budget financed?

The EU Treaty rule is that "the budget should be financed wholly from own resources" (Article 311). Until the 1980s, the EU budget was financed by genuine own resources, mostly import duties collected at the single market's external borders. However, as the EU was very successful in negotiating free trade agreements with major trading partners, these import duties dried up and were gradually replaced by other sources.

Nowadays, almost 80% of the EU budget is made up of national contributions based on Gross National Income (GNI). Then there is the "VAT-based contribution" which amounts to around 10% of total income. "Traditional" own resources (customs duties, agricultural duties and sugar levies), add up to 12%. About 1% comes from fines imposed on companies for breaching competition law and from taxes on EU staff salaries. The current system, with its many exceptions and formulae, lacks transparency and is often described as overly complex.

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 is only consulted.

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

How do annual budgets relate to the MFF?

The Multi-annual Financial Framework (or "Financial Perspectives"), sets annual spending ceilings for the various policy headings within a multi-annual spending period (e.g. 2007-2013). Annual budgets must always be established within the MFF limits.

Parliament's stance

Parliament stated its stance on the EU's future budget as early as 2011. The report adopted then was the result of the work of a special committee, the SURE committee. Thereafter, Parliament adopted several resolutions, prior to European Councils in which the MFF featured on the agenda.

Parliament had already warned in a resolution of 23 October 2012, adopted by an overwhelming majority, that even the Commission's original proposal to freeze the budget at the level of 2013 ceilings would not suffice to fund existing policy priorities in the "Europe 2020" strategy, which include the new tasks laid down in the Lisbon Treaty, let alone any unforeseen events.

When EU Council President Herman Van Rompuy presented his proposal at the November European Council in 2012, MEPs expressed dismay. Their key criticism was of a proposed cut of more than €70 billion compared to the Commission's initial proposal in June 2011, which rendered the proposal incompatible with the "Growth and Jobs Pact" that the European Council had itself adopted in June 2012.

In February 2013, member states agreed on the main figures of the upcoming MFF: commitments of up to €960 billion, with actual payments of €908 billion, both representing significant cuts as compared to the previous budgetary period. In its resolution of 13 March 2013, Parliament rejected the proposal, insisting that certain essential conditions be met to render the long-term budget modern and ambitious in helping to boost the recovery and put the crisis behind the EU. These conditions included:

· *a mid-term revision of the MFF* : by the end of 2016 at the latest, the Commission must present a review of the functioning of the 2014-2020 Multiannual Financial Framework. This compulsory review must, if appropriate, be accompanied by a legislative proposal for the revision of the MFF regulation. National allocations already made must not be reduced through such a revision,

· *unity of the budget* : all expenditure and revenue of the Union and Euratom must be included in the EU budget,

· *flexibility on payments* : starting in 2014, unused margins for payments will be carried forward to the following year. This carry-over will be unlimited in the first four years of the MFF. From 2018 to 2020, the carry-over will be limited to a maximum of €24 billion in total (€7 billion in 2018, €9 billion in 2019 and €10 billion in 2020). This mechanism should avoid any lapse in payment margins, so that the whole €908 billion can be used if necessary to pay the bills and avoid further deficit, and

· *flexibility on commitments* (duration and scope): unused margins for commitments for 2014 to 2017 will not lapse but be transferred to 2016 to 2020 in order to mobilise funds for the fight against youth unemployment. Flexibility on commitments must also be extended to other programmes: Erasmus+, Small and Medium-sized Enterprise (SME) development and research (initially only for Youth Employment). In 2014 and 2015, up to €2.5 billion can be spent in addition to the amounts already foreseen for those years for policy objectives relating to youth unemployment, research, ERASMUS and SMEs.

In June, a political agreement was reached at the highest level between Parliament, the Irish Council Presidency and Commission, in which the Council agreed to Parliament's conditions, which had been repeated over and over again since 2011. Nevertheless, some conditions still had to be worked out in detail. On 3 July Parliament adopted another resolution in which it spelled out its prerequisites for final approval of the MFF::

· *reform of own resources* : a high-level group will undertake a general review of the “own resources” system once the MFF regulation has been formally approved. A preliminary assessment will be available at the end of 2014. On the basis of the results of this work, the Commission will assess whether new own resource initiatives are appropriate,

· *meeting all legal payment obligations for 2013 in 2013,* so as to avoid rolling over bills into 2014. The Council agreed to add another €3.9 billion to remedy the shortfalls in 2013.

· *Agreeingonall legal bases for the various EU programmes* under the new MFF, which are co-decided by Parliament and the Council. When in early November 2013, in 2014 budget talks, the Council agreed to the settling of outstanding payments worth €11.2 billion in 2013 in order to avoid starting the next budgetary period in the red, and progress was made towards convening the high level group on “own resources”, , Parliament decided to put the MFF to a vote.

Agreement on the MFF

The (Multi Annual Financial Framework) was passed by the November 2013 plenary session of the Parliament. With a total budgetary ceiling of €960 billion in commitment appropriations and €908 in payment, this MFF means a decrease of 3.5% in commitment appropriations and 3.7% decrease in payment appropriations compared to that of the period 2007-2013 (respectively €994.7 billion in commitments and €943 billion in payments)

In 2014-2020 about 37.8% of the MFF will be earmarked for the Common Agricultural Policy, 34% for Cohesion and Regional policy, 7.2% for Horizon 2020, 3.1% for the Connecting Europe Facility and 1.5% for Erasmus+. Other funds covered by the MFF include the Youth Employment Guarantee scheme, the Fund for European Aid to the Most Deprived and European Globalisation Adjustment Fund.