European Parliament
2014-2019

Committee on Budgets

30.11.2015

WORKING DOCUMENT

on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal

Committee on Budgets

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I.

I. PART ONE - INTRODUCTION

1. The historical background

For the first time in the SURE report[1] of June 2011, ahead of the Commission's proposal for the Multiannual financial framework (MFF) 2014-2020, the European Parliament put forward the demand for a compulsory mid-term review of the post-2013 period "*allowing for a quantitative as well as qualitative analysis and stock-taking on the functioning of the MFF"*.

The Parliament insisted on the obligatory nature of this review, especially given the cosmetic nature of a similar exercise that took place during the 2007-2013 programming period, despite the rather ambitious Declaration n. 3 attached to the Interinstitutional Agreement (IIA) of 17 May 2006 (see Annex).

Following the Commission proposal on the MFF 2014-2020, the Parliament highlighted the need for a "*post-electoral revision clause"* enshrined in the MFF regulation and fully involving the Parliament in the EP interim report of October 2012[2]. The notion of “post-electoral” alludes to the need of ensuring the democratic legitimacy of the new MFF, by giving the opportunity both to the new Commission and to the newly elected Parliament of reconfirming and reassessing the EU’s political and budgetary priorities by adjusting the MFF accordingly.

The EU Heads of State and Government reached an agreement on the MFF figures (both overall level, as well as distribution per heading and per year) at the European Council of 8 February 2013. The European Parliament gave immediately a strong mandate[3] to its negotiating team, including the “compulsory and comprehensive revision of the MFF” as one of its key requests.

After long and strenuous negotiations, a political agreement on the MFF was reached between Parliament and Council on 27 June 2013. The Parliament did not challenge the MFF figures at the end, but was successful in ensuring that a separate Article 2 was integrated in the MFF Regulation, calling for a compulsory review and subsequent revision of the MFF. This Article was accompanied by a Commission declaration annexed to the MFF Regulation, confirming its intention to submit legislative proposals for the revision of the MFF Regulation[4].

This engagement was repeated by VP Georgieva at her hearing as Commissioner-designate in front of the Parliament in October 2014: *"The new Commission would take up on the promise of the outgoing Commission, which I am a member of, to table a proposal for the revision of the MFF"*[5].

[1] European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe
[2] European Parliament resolution of 23 October 2012 in the interests of achieving a positive outcome of the Multiannual Financial Framework 2014-2020 approval procedure
[3] European Parliament resolution of 13 March 2013 on the European Council conclusions of 7/8 February 2013 concerning the Multiannual Financial Framework.
[4] see Annex II.
[5] Hearing by the European Parliament of 2 October 2014: Introductory statement of Commissioner-designate Kristalina Georgieva Budget and Human Resources Vice-President of the Commission.

2. The legal framework[1]

Article 2 **Mid-term review/revision of the MFF** *By the end of 2016 at the latest, the Commission shall present a review of the functioning of the MFF taking full account of the economic situation at that time as well as the latest macroeconomic projections. This compulsory review shall, as appropriate, be accompanied by a legislative proposal for the revision of this Regulation in accordance with the procedures set out in the TFEU. Without prejudice to Article 7 of this Regulation, pre-allocated national envelopes shall not be reduced through such a revision.*

Scope of the review/revision: according to Article 2 of the MFF Regulation the Commission shall present a review of the functioning of the MFF before the end of 2016. The purpose of this review is to enable the institutions *"to reassess the priorities"* (Recital 2), taking account of the changes in the economic situation on the basis of the latest macroeconomic data. The review shall, as appropriate, be accompanied by a legislative proposal for the revision of the MFF Regulation.

While the review aims at assessing and evaluating the functioning of the MFF against implementation, new economic conditions and upcoming events, and as such can maintain the legislative *status quo*, a revision implies a modification of the legislation in place. In this case all parts of the MFF regulation could be revised, including the MFF ceilings.

New provisions could also be introduced into the Regulation, provided their subject-matter falls within the scope of the legal basis of Article 312 TFEU.

Indeed, any revision of the MFF regulation would need to be reflected in the Interinstitutional Agreement[2], as appropriate (for example if the procedures for mobilisation of the special instruments are modified).

Limitations to the scope of the review/revision: the final sentence of Article 2 of the MFF regulation states that, without prejudice to Article 7 of the regulation, pre-allocated national envelopes may not be reduced by the mid-term revision. This includes the cohesion policy (Heading 1b), Rural Development and the European Maritime and Fisheries Fund (Heading 2) as well as the programmes in shared management in Heading 3 (AMIF and ISF Funds). In other policy areas, including direct payments in agriculture, the institutions remain under an obligation, in accordance with Article 323 TFEU, to ensure that the financial means are available to allow the Union to honour its legal obligations in accordance with the corresponding sectoral legislation.

As regards cohesion policy, in particular, it is worth reminding that Article 7 provides for an automatic adjustment of these envelopes based on updated statistical data in 2017. Therefore, that is the only context in which pre-allocated national cohesion envelopes may be reduced.

[1] Based on the note by the EP Legal service, SJ-0611/15, of 28 September 2015

[2] Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management

Calendar: while the review needs to be conducted by the Commission before the end of 2016, there appears to be no deadline for the adoption of the MFF revision. However, given that Article 25 of the MFF regulation obliges the Commission to present its legislative proposal for the post-2020 MFF before 1 January 2018, it is clear that the mid-term revision process should be concluded before that date.

Procedure: The Commission's legislative proposal will initially frame the scope of the mid-term revision process. It is therefore in the Parliament's interest to make the Commission aware in advance of the issues that it would like to see included therein.

In the absence of a shift towards a qualified majority voting, as foreseen by the Article 312(2) TFEU, the Council will have to adopt any mid-term revision of the MFF Regulation by unanimity. The Parliament must grant its consent for any revision by a majority of its component members.

In accordance with Article 312(5) TFEU, the Council should engage in inter-institutional negotiations with the Parliament before adopting any draft revision to the MFF regulation and not only afterwards when it sends its request for consent.

General provisions: Article 311 TFEU states that *"the Union shall provide itself with the means necessary to attain its objectives and carry through its policies"*. If the low ceilings in the MFF Regulation, which is an act of secondary legislation, prevent this primary law obligation from being respected, then the solution is to revise those ceilings.

Article 323 TFEU requires the institutions to ensure that the financial means are made available to allow the Union to fulfil its legal obligations towards third parties.

Article 17 of the MFF regulation provides that in the event of unforeseen circumstances the MFF may be revised.

If, therefore, it were to be established that the low ceilings for the final years of the MFF prevent the Union from fulfilling its legal obligations towards third parties, or that the EU is confronted with unforeseen circumstances (e.g. the migration and refugee crisis), a revision of the MFF ceilings would be needed.

The MFF mid-term revision provides the opportunity to settle these open issues.

Sectoral policies: It is important to remind that the Commission is obliged to present mid-term evaluation reports for many sectoral funding programmes during the course of 2017 and, in some cases, mid-term revisions of the sectoral legislation may follow, as provided in the respective legal bases.

Therefore, the mid-term review/revision of the MFF will not be the moment to revise substance of the legal bases and/or the sectoral policies and programme, as this may be done in the framework of the mid-term sectoral evaluations.

3. The Parliament's position: a fully-fledged post-electoral review/revision

The inclusion of a midterm review/revision clause in the MFF regulation was - together with the application of "maximum possible flexibility" in the EU budget – one of the main achievements of Parliament in the MFF negotiations, which rendered acceptable the lower ceilings of the 2014-2020 MFF.

In its report of March 2014[1], drawing lessons from the MFF negotiations, the Parliament stated clearly its expectations with respect to such a review/revision:

1. assessing the achievements of the EU2020 targets, particularly in terms of employment and combatting the economic crisis, and on this basis, identifying the areas on which focus investments in the second half of the MFF;
2. assessing the performance of key EU programmes, like Horizon 2020, to focus spending on areas of proven EU added value and where to allocate additional resources;
3. basing the proposal for revision on the latest macroeconomic projections and taking into account the deep analysis on the functioning of all special instruments, in particular of the GMC and of the GMP
4. excluding from the revision the reduction of the pre-allocated national envelopes based on identical and consistent data provided to the legislative authority by the Commission;
5. assessing the results obtained by the financial instruments included in the EU budget, including project bonds,
6. preparing for an eventual reduction in the MFF duration, ideally to a five-year period, for the next MFF cycle;
7. better integrating the principle of gender equality and gender mainstreaming in the annual budgetary procedures following the joint declaration by the three institutions on this topic in December 2013.

More recently, in its resolution on the Council position on the draft budget for 2016[2] the Parliament underlined the following:

"barely two years after the beginning of the current MFF, the Commission has had to twice request the mobilisation of the Flexibility Instrument, as well as the deployment of the Contingency Margin, in order to cover pressing and unforeseen needs that could not be financed within the existing MFF ceilings; also notes that the Global Margin for Commitments in 2015, the first year of its operation, was immediately utilised to its full extent while the resources of two important Union programmes needed to be reduced to allow for the financing of new initiatives; underlines that, due to the frontloading in 2014-15, several Union programmes have less or even no commitments available as of 2016; clearly sees, therefore, that the MFF ceilings are too tight in many headings and paralyse the Union in areas of greatest need, while the available MFF flexibility mechanisms have already been pushed to their limits; considers that these developments make the case for a genuine MFF mid-term revision; eagerly anticipates the ambitious Commission proposals to that effect in 2016;".

[1] EP report "On the negotiations on the MFF 2014-2020: lessons to be learned and the way forward"
[2] European Parliament resolution of 28 October 2015 on the Council position on the draft general budget of the European Union for the financial year 2016

II. PART TWO - AREAS OF ANALYSIS AND POSSIBLE DEMANDS FOR THE SECOND HALF OF THE MFF CYCLE

1. Recent crises and evolving priorities already pushed the MFF to its limits

After not even two years since the beginning of the MFF 2014-2020, the context in which the current framework applies has evolved and new crises and priorities have emerged, which could be neither anticipated nor included in the original agreement.

A. The migration and refugee crisis

Since January 2015 more than 710.000 refugees[1] entered in Europe from the eastern as well as the southern borders. According to Frontex, by 2017 three million migrants from conflict zones could potentially cross EU borders[2].

To respond to this emergency, and due to the exhaustion of the margin under Heading 3, in the recent agreement on the 2016 budget the totality of the Flexibility Instrument available for the years 2014-2016 (1 530 mio EUR) was mobilized, and reinforcements targeted to specific programmes and agencies in Headings 3 and 4.

In his intervention in the EP plenary in October 2015 President Juncker recognised that *"extraordinary measures require extraordinary funding"*. The Rapporteurs share the view that the migration and refugee crisis cannot be funded via the business as usual, considering the magnitude of the problem.

Actually, the resources available in the current MFF, even with the full activation of the existing flexibility provisions, could be insufficient to tackle this problem in the next years.

It is worth noting that following the adoption of the Budget 2016, any additional needs that are likely to occur next year can only be financed through the mobilisation of the Contingency Margin (4 438 mio EUR). However, any amount mobilised through this instrument in one year should be fully compensated (by reducing the MFF ceilings accordingly) in the same or following years of the MFF.

Considering the budgetary impact that these new and unforeseen events are likely to engender in the next years, should a revision of the MFF ceiling for Headings 3 and 4 be envisaged in the framework of the mid-term review/revision?

B. Fight against terrorism

The recent terrorist attacks in France and the raise of the terrorist threat in other European countries call for a coordinated and reinforced action at EU level. In this respect, the Council invited Member States to support the implementation of its conclusions from the meeting on counter-terrorism on 20 November 2015, which mainly relates to the use of the Internal Security Fund[3].

[1] http://frontex.europa.eu/news/710-000-migrants-entered-eu-in-first-nine-months-of-2015-NUiBkk
[2] http://uk.reuters.com/article/2015/11/05/uk-europe-migrants-costs-idUKKCN0SU1BL20151105
[3] http://www.consilium.europa.eu/en/press/press-releases/2015/11/20-jha-conclusions-counter-terrorism/

What could be the budgetary consequences in the EU budget, mainly in Heading 3, in order to ensure security in the EU? Is an increase of the ceilings needed to respond to this situation?

C. The external crises

Crises in external countries have direct consequences within the EU (refugee influx, terrorist threats, and even indirectly causing the agricultural crisis in summer 2015). The EU capacity to act as a global actor should contribute to stabilisation in the neighbourhood. Furthermore, it should not be forgotten that EU development cooperation is the best mean to address the root causes of destabilisation and forced displacement. The EU committed to contribute to the achievement of post-2015 development goals.

How would we assess the adequacy of budgetary measures undertaken by the EU to solve the external crises occurred since the adoption of MFF 2014-2020?

Should the MFF ceiling of Heading 4 be revised? What are the additional needs from the EU budget in Heading 4, compared to the situation and forecasts back in 2013, to address the current situation?

D. EFSI - an Investment Plan for Europe

The European Fund for Strategic Investments (EFSI) is at the heart of President Juncker's Investment Plan. It is the main channel to mobilise €315 billion in new investment in the real economy over the next three years. The EFSI aims to overcome current market failures by addressing market gaps and mobilizing private investment. It will support strategic investments in key areas such as infrastructure, education, research and innovation, as well as risk finance for small businesses.

For EFSI to be established, the Union grants a Guarantee, whose risks are covered by a Guarantee Fund. This Fund is established by a gradual contribution from the EU budget, reaching 8 bio EUR by 2020, constituted partly by the MFF unallocated margins (3 bio EUR) and the rest by redeployments from existing programmes, namely Horizon 2020 and Connecting Europe Facility (CEF). The envelopes of these programmes, agreed in 2013, were therefore heavily reduced (-2.2 bio and -2.8 bio EUR respectively), although 1 bio EUR less all in all than in the original Commission's proposal, thanks to Parliament's intervention.

The Rapporteurs would like to recall that no revision of the MFF ceilings took place while setting up the EFSI, as would have been appropriate, given the new and unforeseen nature of this project. The solution of redeploying part of the appropriations from Horizon 2020 and CEF was eventually accepted.

However, neither the EFSI nor the Horizon 2020 and CEF legal bases[1] pre-empt the decisions of the budgetary authority - for the constitution of the Fund on the one hand and the

[1] Art 13 EFSI Regulation: "*The annual appropriations from the general budget of the Union for provisioning the guarantee fund shall be authorised by the European Parliament and by the Council within the framework of the annual budgetary procedure ...* " and art 6.1 of the Horizon 2020 Regulation "*The annual appropriations shall be authorised by the European Parliament and by the Council within the limits of the multiannual financial framework*".

compensations of the two cut programmes on the other hand - in the framework of the annual budgetary procedure.

For Horizon 2020, in particular, it is also to be reminded that in the last phase of the negotiations on the MFF 2014-2020 the Parliament managed to introduce a specific flexibility[1], leading to a frontloading of 200 mio EUR in 2014, which will have to be compensated between 2016 and 2020, i.e. in the same period when the EFSI-redeployment will additionally reduce this programme's annual envelope.

Should a compensation of the EFSI-related cuts for Horizon 2020 and CEF be examined in the mid-term review/revision, increasing both programmes' envelopes as to keep up with the original engagement taken in 2013?

E. The continuation of the Youth Employment Initiative after 2015

Between 2007 and 2013, youth unemployment reached record highs across Europe, dramatically increasing from 15.7% to 23.4%, according to Eurostat.

The Youth Employment Initiative was introduced in the current programming period to foster employment in particular for young people with an endowment of 6.4 bio EUR, half of which coming from the ESF and half from a dedicated budget line.

At the initiative of the Parliament, willing to pass a strong political signal of commitment to the re-launch of jobs in the EU, the co-legislators agreed to frontload the whole envelope for this programme in 2014 and 2015.

By requesting this frontloading the Parliament by no means intended to terminate this initiative only after two years of funding. As a proof of that, both the MFF and the ESF regulation explicitly foresee the prolongation of YEI after the frontloading:

- Article 14 of the MFF regulation establishes a Global Margin for Commitments to be mobilised over and above the ceilings as from 2016 for policy objectives related to growth and employment, in particular youth employment. This instrument was introduced upon initiative of the Parliament *in primis* to allow for the continuation of the Youth Employment Initiative after 2015.

- Article 16 of the ESF regulation - the legal basis for YEI - foresees the possibility to revise upwards the resources of YEI for the years 2016 to 2020 in the framework of the budgetary procedure.

It is worth reminding that as part of the recent agreement on the 2016 Budget, the institutions signed a joint statement in which the Commission commits to draw lessons from the results of the YEI evaluation by the Member States - planned by the end of 2015 - in the framework of the MFF mid-term review/revision and to put forward proposals for the continuation of this initiative until 2020 (see Annex II). The GMC is explicitly mentioned in this context, but other means should be also taken into consideration. It is worth recalling that the International

[1] Article 15 MFF regulation. The other programmes are COSME, Erasmus+ and the Youth Employment Initiative, whose frontloading was compensated by the corresponding back-loading of CEF and ITER.

Labour Organisation (ILO) recommends a 21 billion funding in this respect[1].

Given the lack of new appropriations for this Initiative as from 2016, should the mid-term review/revision aim at reaching a joint commitment between the institutions to ensure the continuation of its funding until 2020? Which options in this sense could be envisaged?

F. The payment crisis

The budgetary negotiations in the last years of the MFF 2007-2013 were dominated by the discussion on the payment backlog, i.e. the accumulation of unpaid bills, especially in the cohesion policy, due to the acceleration of the payment profile of the cohesion programmes towards the end of the MFF, combined with an artificially low level of payments decided in the annual budgets as a consequence of the austerity approach by the Council. This had a negative impact on the RALs (*reste à liquider*) which reached 222 bio EUR at the end of the past programming period. As a result, the current MFF started with a "debt" from the previous framework of 23,4 bio EUR.

In July 2015 the three institutions agreed on a payment plan to progressively reduce the payment backlog 2007-2013, with the aim to reach the level of 2 bio EUR at the end of 2016, while avoiding a similar build-up of backlog in the future.

In the recent negotiations on the 2016 Budget, the EP delegation insisted on the need to develop payment forecasts for the new programmes for 2014-2020. As part of the final agreement, a new joint statement on a payment forecast 2016-2020-was agreed, putting the emphasis on the need for longer-term forecasts (see Annex II).

It should be noted that the current payment ceiling, already lower compared to 2007-2013, will be further compressed as from 2018 due to the offsetting following the mobilisation of the Contingency Margin in 2014. Additionally, part of the payment appropriations of 2014 and 2015 are being used to pay the payment backlog from the past.

Due to the late agreement on the current MFF, the new programmes under shared management started with considerable delay. This led in January 2015 to the need to revise the MFF ceilings by carrying over to 2015 21 bio EUR, which could not be committed in 2014[2]. However, no similar carry-over was proposed for payments. The Commission justified this choice stating that *"payments on the re-profiled commitments could be managed within the current ceilings, taking into account the existing flexibility provisions of the MFF Regulation (notably the Global Margin for payments which ensures that no margins under the payment ceilings are lost)"*[3].

In summer 2015, as part of the financial aid measures in favour of Greece, the Commission proposed to frontload 2 bio EUR in payments from the ESI Funds in 2015 and 2016. This amount will be fully compensated till the end of this MFF period. No increase in the payment

[1] http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_184965.pdf [2] Article 19 MFF regulation

[2] Article 19 MFF regulation

[3] Commission Declaration on the impact on payment ceilings of the carry-over and transfer of 2014 allocations for programmes under shared management of 15 February 2015.

appropriations for these two years was considered necessary, based on the fact that the delayed start of the cohesion programmes had freed the additional payments required. The Parliament regretted that no fresh appropriations were foreseen for this purpose. It expressed its strong concern about the implications of such delays in the cohesion programmes, which made possible the accommodation of an additional 2 billion without changing the overall level of payments for 2015 and 2016.

Lastly, it is worth reminding that also in the framework of the additional commitments proposed for migration in Amending Budgets 5/2015 and 7/2015 no reinforcement in payments has been foreseen.

All these elements lay the ground for the creation of a new payment backlog in the second half of the MFF, when the cohesion programmes will experience their natural peak in payments, at the same time when the offsetting of the Contingency Margin will apply. It is therefore likely that the future budgetary negotiations will have to deal again with this issue, which should be of technical, not of political nature.

To which extent did the insufficient level of payments jeopardise or delay payments to all stakeholders? How can the EU bring down the backlog of unpaid claims?

How can the mid-term review/revision contribute to reach a shared solution preventing the development of future payments crisis? Should the institutions in this context agree on a joint payment plan for 2014-2020? Which other instrument could be envisaged at this stage?

2. The use of the flexibility provisions to reinforce political priorities so far

To cope with the new developments since 2014, so far the Commission has proposed every year, among other measures, substantial reinforcements as compared to the adopted budgets and to its original financial programming. In particular on its own initiative it proposed a substantial use - up to exhaustion in some cases - of the special instruments included in the MFF regulation:

1. The Contingency Margin was activated for an amount of 3,2 bio EUR in payments in 2014 to cope with a series of unforeseen events[1]. This amount will have to be offset as from 2018, thus reducing the overall payment ceiling in the last years of the MFF.

2. The Flexibility Instrument was mobilised twice, once in 2014 for granting additional allocation from the Structural funds to Cyprus and once in 2015 to tackle the migration crisis. Following the budgetary agreement for 2016, the full amount of this instrument for 2016 has been exhausted.

3. Practically the totality of the Global Margin for commitments 2014 and 2015 was allocated to the constitution of the EFSI Fund as part of the political agreement on the EFSI regulation. A very residual amount (174 mio EUR) is left available for 2016, by far too low to properly finance key political EU objectives, like youth employment,

[1] Frontloading of programmes (Horizon 2020, Erasmus+ , COSME and YEI), pre-financing of FEAD, unforeseen excess backlog in 2013, top-up of co-financing rates in rural development and fisheries (heading 2) and in cohesion (heading 1b), financial package for Ukraine.

for which this instrument was set up in the first place.

Additionally, in accordance with Article 15 of the MFF regulation, 2 543 mio EUR all in all were frontloaded[1] in the budgetary procedures of 2014 and 2015 for specified policy objectives relating to youth employment (YEI and Erasmus+, 2 143 mio EUR and 150 mio respectively), research (Horizon 2020, 200 mio EUR) and SMEs (COSME, 50 mio EUR).

To which extent did the flexibility provisions help the EU to cope with the arising internal and external crises?

Is there a need for an improved flexibility (e.g. in a form of a simplified procedure to adjust and increase expenditure ceilings) to deal with unforeseen circumstances or substantial and lasting changes in political priorities?

III. PART THREE - PREPARING THE REFLECTION ON MFF POST 2020

The Rapporteurs recall that the Commission's proposals for the mid-term review/revision are due by the end of 2016. At the same time the MFF regulation imposes on the Commission to present its proposals for the next cycle of MFF by the 1 January 2018.

Given this very short and potentially interconnected calendar, the Rapporteurs are of the view that the mid-term review/revision should be used as well to start an early reflection on certain issues which need to be settled before the beginning of the next programming period.

In this respect, they identify at this stage the following topics (non-exhaustive list):

1. Duration of the MFF cycle after 2020

Recital 3 of the MFF regulation states that *"In the context of the mid-term review/revision of the MFF, the European Parliament, the Council and the Commission agree to jointly examine the most suitable duration for the subsequent MFF before the Commission presents its proposals with a view to striking the right balance between the duration of the respective terms of office of the members of the European Parliament and the European Commission - and the need for stability for programming cycles and investment predictability."*

Since the SURE report the Parliament has been in favour or a five-year (or 5+5) MFF cycle, aligned to the mandates of the Commission and the Parliament, as a means to reinforce its democratic accountability by ensuring that the institutions in charge can have a say in the definition of the priorities to be implemented for the next programming period.

Does the Parliament maintain its initial support for a five-year (or a 5+5 year) MFF cycle? If yes, how would it need to be applied in practice to ensure its full compatibility with the duration of the shared-managed multiannual programmes, especially with reference to cohesion and bearing in mind the usual delay in the start of the implementation of the operational programmes resulting from a long process of

[1] This amount shall be fully offset against appropriations within and/or between headings in order to leave unchanged the total annual ceilings for the period 2014-2020 and the total allocation per heading or sub-heading over the period.

programming? Is a modification of the current MFF needed to enable the necessary adjustment to ensure the practical and democratic process?

2. A system of genuine own resources

The current own resources system has a number of drawbacks. It is complex, unfair and incomprehensible to EU citizens. The current financing relies excessively on national contributions (around 85% of the revenue of the EU budget comes from the GNI-based resource and from the VAT-based own resource). This is seen as a fiscal burden on national treasuries and citizens.

If national contributions were decreased this would contribute to budgetary consolidation efforts in the Member States, and would make the system more autonomous, transparent and fairer. This can only be done by creating genuine own resources.

When negotiating the 2014-2020 MFF, the Parliament had supported Commission's ambitious legislative proposals and pushed for a clear roadmap towards the return to a system of genuine, clear, simple and fair own resources, offering the guarantees over decision making and democratic control inherent in all public budgets. Proposals included reducing the level of GNI-based contributions to 40% of the EU budget, transferring the revenues from the Financial transaction tax fully or partially to the EU budget, reforming the VAT own resources, reducing the collection costs of traditional own resources to 10% of the amounts collected by the Member States, and phasing-out the existing rebates and other correction mechanisms.

Hardly any of these proposals saw the light of the day due to resistance in the Council. Parliament therefore insisted that as a minimum concession a High Level Group on Own Resources (HLGOR) should be established to prepare the ground for a more fundamental reform for the following MFF. The HLGOR was established in 2014 under the chairmanship of Mario Monti. Three members each were appointed by the three institutions.[1] The group issued a first assessment report at the end of 2014, which was presented in the Committee on Budgets early this year, as well as to the EP Conference of Presidents, the ECOFIN Council and the College of Commissioners.

As foreseen by the joint declaration on own resources included in the MFF agreement of December 2013 (see Annex II), based on the results of the HLGOR the Commission will assess the appropriateness of new own resource in parallel to the mid-term review/revision, so that possible reforms are considered for the next MFF.

Parallel to the own resources debate, it is noteworthy that several Committees in the European Parliament have also explored different proposals on taxation at EU level. However, these proposals are not always considered as potential candidates for new EU own resources, even if they could definitely serve such a purpose.

What would be the next steps in the Parliament to achieve a common renewed approach on own-resources?

Should the Parliament wait for the results of the High Level Group and for the

[1] EP representatives in this group are Alain Lamassoure, Ivailo Kalfin and Guy Verhofstadt.

Commission proposal to express its views on own resources or should a position be taken in advance, in order to structure initiatives in a comprehensive strategy and to back politically the work of the HLGOR?

When should the concrete assessment of both short-term (possible development of a temporary -emergency mechanism during this MFF period,) and longer-term aspects (creation of genuine own resources after 2020) of the own-resources strategy take place?

How should the Committee on Budgets best assess all potential candidates for a genuine own resources (such as reformed VAT, Financial Activities' Tax, bank levies and *seigniorage*, reformed EU Emissions Trading System and Carbon taxation, transport taxation, EU wide corporate taxation, digital taxation[1])?

3. A performance-based budgeting

Parliament has expressed clear views in favour of a stronger performance culture in relation to the EU budget in its resolution of 3 July 2013 on the Integrated Internal Control Framework where it calls for the establishment of a performance-based public budgeting model in which each budget line is accompanied by objectives and outputs to be measured by performance indicators.

In the same resolution Parliament also asks for the setting up of an Inter-institutional working group in this respect. Parliament's resolution of 26 February 2014[2] lists as main elements of a performance evaluation the achievement of the programme objectives (results), the sound programme management by the Commission and the Member States, and the contribution of programme results and sound management to the Union’s main objectives.

On 30 April 2015 Commissioner Georgieva, in a letter addressed to Parliament, Council and the Court of Auditors, responded to Parliament's request by calling for the establishment of an Inter-institutional working group on performance-based budgeting. The composition and objectives of such a working group is still to be determined.

At this stage, the Institutions concerned have not yet established a common vision on how to increase performance orientation of the EU budget. During the exchange of views before the Committee on Budgets in October 2015 the Vice-President Georgieva confirmed her intention to use the MFF review/revision to make some concrete proposals in this respect.

Should inter-institutional discussions on performance-based budgeting be deepened in the framework of the mid-term review/revision? In which format and level (political or technical)?

How can we guarantee that performance-based budgeting does not come at the expense of EU political priorities and ambitions?

4. Unity of the budget

One of main demands of the Parliament during the last MFF negotiations was related to the unity of the budget, meaning that all expenditure and revenue resulting from decisions taken

[1] List discussed in HLGOR and presented to the BUDG committee during the meeting on 19 November 2015.
[2] EP resolution "On the evaluation of the Union’s finances based on the results achieved: a new tool for the European Commission’s improved discharge procedure"

by, or in the name of, the EU institutions should be included in the EU Budget, together with a comprehensive overview of the financial implications of all EU actions and instruments, including EU actions made by Member States in the framework of reinforced cooperation or of a specific Treaty.

In contrast to this view, also as a result of the recent financial and political crisis within the EU, several ad hoc instruments, partly or fully financed by the Member States and co-financed by the EU budget have been set up in the last years. One of the last examples is the "Madad" Trust Fund, to be endowed with 1 bio EUR equally shared between the EU budget and Member States, which aims to finance humanitarian goals and development assistance in Syria and the neighbourhood countries, in the framework of the migratory crisis.

Regardless the effectiveness and political opportunity of recurring to ad hoc instruments constituted outside the EU budget (the "Madad" Fund but also the Turkey Refugee Grant Facility, the European Development Fund, etc.), the multiplication of such instruments creates a problem of accountability in the EU, which needs to be analysed.

At the same time the idea of a budgetary capacity for the Eurozone has been put forward by several actors.

Which improvements can be envisaged to ensure full democratic accountability and transparency of ad hoc instruments outside the EU budget?

How could a possible budgetary capacity for the Eurozone be envisaged? As integrated in the current EU budget, in line with the principle of unity, or as a separate element outside of the EU budget?

5. Use of financial instruments in the EU budget

The role of financial instruments in the EU budget, as alternative and complementary way of funding compared to subsidies and grants, has importantly increased in the MFF 2014-2020 programming period, as regards both the share of appropriations and the policy areas involved. Financial instruments mechanisms have been foreseen under several EU programmes of various headings, such as Horizon 2020, CEF, COSME, Erasmus+ and EaSI in Heading 1a, cohesion policy under Heading 1b, the EMFF Fund and Life + in Heading 2, as well as various programmes related to the EU external dimension (Heading 4).

The Parliament has already proceeded to an evaluation of financial instruments 2007-2013[1]. Further analysis will be needed taking into account the increasing support to financial instruments in the current MFF and the fact that the Commission has already started to discuss whether their share of EU budget should be increased[2] during the next programming period.

At this stage of the programming period which financial instruments should be assessed for the mid-term review/revision of the MFF? To which extent do these financial instruments deliver the results regarding the EU's political objectives? How can we

[1] http://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/453232/IPOL-JOIN_ET(2012)453232_EN.pdf
[2] https://ec.europa.eu/commission/2014-2019/cretu/announcements/55th-congress-european-regional-science-association-lisbon-portugal_en

measure their additionality?

6. Improving the inter-institutional negotiations on the next MFF

The MFF 2014-2020 was the first multi-annual framework negotiated under the Lisbon Treaty. According to Article 312 (2) TFEU the MFF shall be adopted unanimously by Council after the European Parliament's approval. However, the new provisions remain quite general as regards the procedure to conduct negotiations leading to Parliament's consent: Article 312(5) TFUE states that "*Throughout the procedure leading to the adoption of the financial framework, the European Parliament, the Council and the Commission shall take any measure necessary to facilitate its adoption."*

This leaves the institutions quite free as to the definition of "any measure". During the past negotiations, the actual negotiations between Council and Parliament started only after an agreement was reached in the European Council in February 2013 and were squeezed in two months only (May and June, when the political agreement was reached).

During this phase the Parliament saw its prerogatives as co-legislator *de facto* limited as the EC conclusions included a significant number of elements that fully belonged to the legislative procedures on the legal bases under negotiation (MFF regulation as well as multiannual programmes).

Only being able to accept or reject the Council's position reduces the Parliament's role. By potentially refusing a future MFF regulation, European stability would be endangered. Thus, some modifications in the negotiation process appear in this sense as both democratic and stability requirement.

Should a more structured procedure detailing more specifically the modalities of involvement of the Parliament in the next MFF negotiations be agreed in the mid-term review/revision? Which structural changes in the MFF decision-making process are needed? Would such a provision need to be reflected in the IIA, as it is the case for the annual budgetary procedure?

IV. PART FOUR: PROPOSAL FOR A WORKING PLAN

As a first step to prepare the upcoming MFF revision, the Rapporteurs would like to assess the budgetary implementation and effectiveness of a number of key EU programmes and instruments.

An objective limit for such an assessment is the relatively short period of implementation accompanied in some cases by a slow start in the launch of the new programmes.

While taking into account this incoherence, the Rapporteurs count on an as-much-as-possible-thorough and comprehensive assessment of the running programmes by the Commission, and on a regular and complete transmission of information to the legislative authority, so as to provide a common ground for discussion.

In particular they consider that the Commission should proceed as quickly as possible to the aggregation and analysis of the available data from the Member States' evaluation on YEI planned by the end of 2015, so that this information can be taken into timely account for the MFF review/revision.

Also, the functioning of the new financial instruments so far will be analysed, as far as possible, with particular emphasis on the issues of additionality compared to more traditional forms of funding.

To this purpose, the Rapporteurs intend to launch a series of events between December 2015 and spring 2016, working under the assumption that the legislative proposals will be adopted by the Commission in May 2016, due to the lack of an official calendar at this stage. This provisional working plan will be adjusted on the basis of the upcoming developments.

Firstly, dedicated **Monitoring groups** will be organised on the following issues:

a) ***MFF-related topics*** (to be held on 10 December 2015):

1. The flexibility provisions included in the MFF Regulation, namely the special instruments defined in articles 9 to 15 (Emergency Aid Reserve, European Union Solidarity Fund, Flexibility Instrument, European Globalization Adjustment Fund, Contingency Margin and, in particular, the Global Margin for commitments, and the specific flexibility) as well as the Global Margin for payments (Article 5).

The aim is to analyse their rules, their functioning in practice, the mobilisations so far, the shortcomings encountered and the possible implications for the second half of the programming period. The issue of the payments of the special instruments will be analysed in this context.

2. The result of the specific frontloading for YEI, Erasmus+, Horizon 2020 and COSME in 2014-2015 and the implications for the second half of the period.

3. The situation of payments, in particular the evolution of RALs (*reste à liquider*) and the backlog in payments in the last years, with the view to check the state of play and find a sustainable solution for the second half of the programming period.

4. The MFF duration for next programming cycle, to explore possible ways on how to better align the MFF cycle to the lifecycle of the EU institutions after 2020.

b) ***Policy-related topics*** (scheduled in January-February 2016):

1. Horizon 2020 and the Connecting Europe Facility: implementation so far will be looked after, as well as absorption capacity, contribution to the EU2020 objectives and problems encountered, also as a consequence of the EFSI redeployment.

2. Youth Employment Initiative: the effects of the frontloading will be analysed based on two years of implementation as well as possible options for its continuation after 2016.

3. Migration and refugee crisis: a clear overview of what has been financed so far will be sought for, allowing for a first assessment of the initiatives undertaken both internally and externally to the EU, including policy programmes, agencies and the EU Trust Funds set up for this purpose. The assessment of the effects of the migratory situation

on the EU budget should allow evaluating possible future needs - and impact on the EU budget - during the remaining MFF period.

Secondly, two **public hearings**, with the participation of external stakeholders, will be organised (scheduled in March-April 2016): a general one on the mid-term review/revision and a second one focussing on the functioning and implementation of the new financial instruments. In this context an early analysis of the functioning of the existing and newly set up financial instruments will be conducted, with particular emphasis on SMEs.

Thirdly, a **long-term study** on the new financial instruments could be launched, which could prepare the ground for the debate on their configuration in future.

Lastly, a **strategic report**, conveying the EP views on the mid-term review/revision will be prepared, providing a political input ahead of the COM proposal (tentative date of adoption: April 2016).

ANNEX I

Relevant EU Treaty provisions

Article 311

The Union shall provide itself with the means necessary to attain its objectives and carry through its policies.

Without prejudice to other revenue, the budget shall be financed wholly from own resources.

The Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament adopt a decision laying down the provisions relating to the system of own resources of the Union. In this context it may establish new categories of own resources or abolish an existing category. That decision shall not enter into force until it is approved by the Member States in accordance with their respective constitutional requirements.

The Council, acting by means of regulations in accordance with a special legislative procedure, shall lay down implementing measures for the Union's own resources system in so far as this is provided for in the decision adopted on the basis of the third paragraph. The Council shall act after obtaining the consent of the European Parliament.

Article 312

1. The multiannual financial framework shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources.

It shall be established for a period of at least five years.

The annual budget of the Union shall comply with the multiannual financial framework.

2. The Council, acting in accordance with a special legislative procedure, shall adopt a regulation laying down the multiannual financial framework. The Council shall act unanimously after obtaining the consent of the European Parliament, which shall be given by a majority of its component members.

The European Council may, unanimously, adopt a decision authorising the Council to act by a qualified majority when adopting the regulation referred to in the first subparagraph.

3. The financial framework shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations. The categories of expenditure, limited in number, shall correspond to the Union's major sectors of activity.

The financial framework shall lay down any other provisions required for the annual budgetary procedure to run smoothly.

4. Where no Council regulation determining a new financial framework has been adopted by

the end of the previous financial framework, the ceilings and other provisions corresponding to the last year of that framework shall be extended until such time as that act is adopted.EN C 83/182 Official Journal of the European Union 30.3.2010

5. Throughout the procedure leading to the adoption of the financial framework, the European Parliament, the Council and the Commission shall take any measure necessary to facilitate its adoption.

Article 323

The European Parliament, the Council and the Commission shall ensure that the financial means are made available to allow the Union to fulfil its legal obligations in respect of third parties.

ANNEX II

Declarations and joint statements on the Multiannual financial framework

Declaration n. 3 on the review of the financial framework 2007-2013 of December 2006

1. In accordance with the conclusions of the European Council, the Commission has been invited to undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate, and to report in 2008/2009. That review should be accompanied by an assessment of the functioning of the Interinstitutional Agreement. The European Parliament will be associated with the review at all stages of the procedure on the basis of the following provisions:

– during the examination phase following the presentation of the review by the Commission, it will be ensured that appropriate discussions take place with the European Parliament on the basis of the normal political dialogue between the institutions and that the positions of the European Parliament are duly taken into account,

– in accordance with its conclusions of December 2005, the European Council "can take decisions on all the subjects covered by the review". The European Parliament will be part of any formal follow-up steps, in accordance with the relevant procedures and in full respect of its established rights.

2. The Commission undertakes, as part of the process of consultation and reflection leading up to the establishment of the review, to draw on the in-depth exchange of views it will conduct with European Parliament when analysing the situation. The Commission also takes note of the European Parliament's intention to call for a conference involving the European Parliament and the national parliaments to review the own-resources system. It will consider the outcome of any such conference as a contribution in the framework of that consultation

process. It is understood that the Commission's proposals will be put forward entirely under its own responsibility.

Commission´s declaration on the review/revision of December 2013

With regard to the provisions of Article 2 MFFR, taking into account the result of the Review, the Commission confirms its intention to submit legislative proposals for a revision of the MFF Regulation. In this context, it will pay particular attention to the functioning of the Global margin for payments in order to ensure that the overall payments ceiling remains available throughout the period. It will also examine the evolution of the Global margin for commitments. The Commission will also take into account the particular requirements of the Horizon 2020 programme. The Commission will also examine aligning its proposals for the next MFF with the political cycles of the Institutions.

Joint Declaration on Own Resources of December 2013

1. According to Article 311 of the TFEU the Union shall provide itself with the means necessary to attain its objectives and carry through its policies; it also stipulates that, without prejudice to other revenue, the budget shall be financed wholly from own resources. Article 311 al. 3 indicates that the Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament adopt a decision on the system of own resources and that, in that context, the Council may establish new categories of own resources or abolish an existing category.

2. On this basis, the Commission presented in June 2011 a set of proposals to reform the Own Resources system of the Union. At its meeting of 7/8 February, the European Council agreed that Own Resources arrangements should be guided by the overall objectives of simplicity, transparency and equity. In addition, the European Council called on the Council to continue working on the proposal of the Commission for a new own resource based on value added tax (VAT). It also invited the Member States participating in the enhanced cooperation in the area of financial transaction tax (FTT) to examine if it could become the base for a new own resource for the EU budget.

3. The question of own resources requires further work. To this end, a high-level Group will be convened, composed of members appointed by the three institutions. It will take into account all existing or forthcoming input which may be brought by the three European institutions and by National Parliaments. It should draw on appropriate expertise, including from national budgetary and fiscal authorities as well as independent experts.

4. The Group will undertake a general review of the Own Resources system guided by the overall objectives of simplicity, transparency, equity and democratic accountability. A first assessment will be available at the end of 2014. Progress of the work will be assessed at political level by regular meetings, at least once every six months.

5. National Parliaments will be invited to an inter-institutional conference during 2016 to assess the outcome of this work.

6. On the basis of the results of this work, the Commission will assess if new Own Resource initiatives are appropriate. This assessment will be done in parallel to the review referred to in Article 1a of the MFF Regulation with a view to possible reforms to be considered for the period covered by the next multiannual financial framework.

Joint Statement by the Parliament, Council and Commission statement on the Youth

Employment Initiative of November 2015

The European Parliament, the Council and the Commission recall that reducing youth unemployment remains a high and shared political priority, and to this end they reaffirm their determination to make the best possible use of budgetary resources available to tackle it, and in particular the Youth Employment Initiative (YEI).

They recall that in accordance with Article 14(1) of Council Regulation (EUR, EURATOM) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020 "*Margins left available below the MFF ceilings for commitment appropriations for the years 2014-2017 shall constitute a Global MFF Margin for commitments, to be made available over and above the ceilings established in the MFF for the years 2016 to 2020 for policy objectives related to growth and employment, in particular youth employment*".

In the framework of the MFF mid-term review/revision the Commission will draw lessons from the results of the YEI evaluation, accompanied, as appropriate, by proposals for the continuation of the initiative until 2020.

The Council and the Parliament undertake to examine rapidly proposals put forward by the Commission in this respect.

Joint statement on a payment forecast 2016-2020 - November 2015

Building on the existing agreement on a payment plan 2015-2016, the European Parliament, the Council and the Commission acknowledge the steps taken to phase out the backlog of outstanding payment claims from the 2007-2013 cohesion programmes, and to improve the monitoring of any backlog of unpaid bills in all headings. They reiterate their commitment to prevent a similar build-up of backlog in the future, including through setting-up an early warning system.

The European Parliament, the Council and the Commission will, throughout the year, actively monitor the state of implementation of the 2016 budget, in accordance with the agreed payment plan; in particular the appropriations provided in the budget 2016 will allow the Commission to reduce the year-end backlog of outstanding payment claims for the 2007-2013 cohesion programmes to a level of around EUR 2 billion by the end of 2016.

The European Parliament, the Council and the Commission will continue taking stock of payment implementation and updated forecasts at dedicated interinstitutional meetings, in accordance with point 36 of the annexe of the Interinstitutional Agreement, which should take place at least three times in 2016 at the political level.

In that context, the European Parliament, the Council, the Commission recall that those meetings should also address the longer-term forecasts on the expected evolution of payments until the end of the MFF 2014-2020.