

Protection of the Union's budget in case of 'rule of law' deficiencies

On 10 December 2020, the European Council reached an agreement on the implementation of the regulation linking EU funding to respect for the rule of law. Hungary and Poland, in opposing this new mechanism, had been blocking the Union's new budget but have now agreed to a compromise. The regulation on the rule of law is part of the package on the multiannual financial framework (MFF) for 2021-2027 and the Next Generation EU recovery instrument. The Parliament is due to vote in December at second reading on the agreed text.

Background

The [rule of law](#) is one of the [essential values](#) mentioned in [Article 2 of the Treaty on European Union](#) (TEU): these values are common to the Member States. Respect for the values has to be ensured throughout all Union policies, including the [EU budget](#), where respect for fundamental values is an essential precondition for sound financial management and effective EU funding.

European Commission proposal

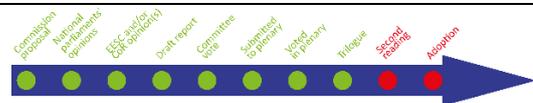
On 2 May 2018, the Commission adopted a [proposal](#) for a regulation on the protection of the European Union's budget in case of generalised deficiencies as regards the rule of law in the Member States. It included measures such as the suspension of payments or commitments, the termination of a legal commitment, the prohibition on entering into new legal commitments, the suspension of the approval of one or more programmes and the reduction of pre-financing.

Compromise agreement

On 4 April 2019, the Parliament adopted its [first-reading position](#). It proposed a new article defining generalised deficiencies as regards the rule of law, such as endangering the independence of the judiciary or failing to prevent, correct and sanction arbitrary or unlawful decisions by public authorities. It insisted on protecting final recipients and beneficiaries.

Interinstitutional negotiations on the proposal led to a [compromise agreement](#) on 5 November 2020, on 'rule of law' conditionality. This applies not only to cases of corruption or fraud, but also to fundamental EU values such as freedom, democracy, equality, and respect for human rights, including the rights of minorities. The agreement also clarifies the possible scope of the breaches by listing examples. Final beneficiaries will be protected. The agreed compromise was not immediately adopted by Council, although the necessary qualified majority was there. Hungary and Poland [opposed](#) it on 16 November, and blocked other parts of the overall package on the [future MFF](#) and [Next Generation EU recovery instrument](#). On 10 December, the European Council reached an agreement: according to the [conclusions](#) of the meeting, the Commission will adopt guidelines on the way it will apply the Regulation, including a methodology for carrying out its assessments. Member States' right to introduce an action for annulment of the Regulation is explicitly mentioned, and the Commission should not finalise its guidelines or propose measures under the Regulation until after the judgment of the Court of Justice on this matter. After the Council adopted its first-reading position, the Committees on Budgets (BUDG) and on Budgetary Control (CONT) voted 56 to 10 on 14 December to recommend Parliament approves the text at second reading. The Parliament is now due to vote on final adoption of the text during the December plenary session.

Recommendation for second reading: [2018/0136\(COD\)](#);
Committees responsible: BUDG, CONT; Rapporteurs: Petri Sarvamaa (EPP, Finland), Eider Gardiazabal Rubial (S&D, Spain).



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