European Parliament

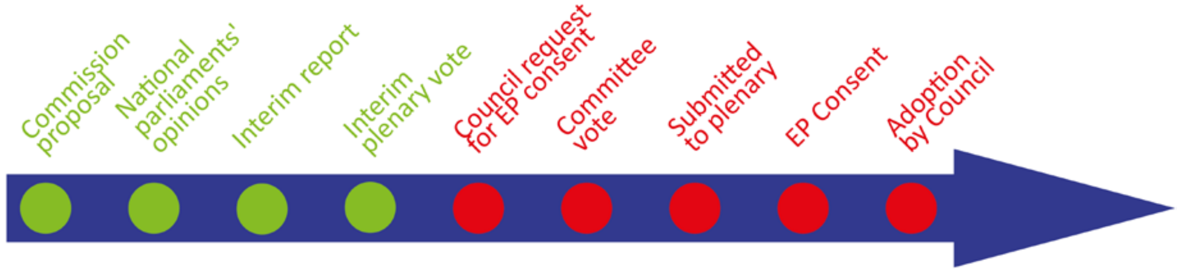
Multiannual financial framework for the years 2021 to 2027

The future of EU finances

OVERVIEW

On 20 June 2019, the European Council examined the progress of work in the Council on the Commission proposal for the long-term design of the post-2020 EU budget. The European Council now aims to reach an agreement among Heads of State or Government before the end of 2019. Elements for consideration in the draft regulation, which is part of a broader package of proposals, include the following features of the new multiannual financial framework (MFF): total resources, structure, priorities, flexibility provisions, and revision clauses. The European Parliament has already detailed its negotiating position in November 2018, with a view to contributing to a smooth transition to the next MFF and its related EU spending programmes as of 2021.

Proposal for a Council regulation laying down the multiannual financial framework for the years 2021 to 2027		
Committee responsible:	Budgets (BUDG)	COM(2018) 322, 2.5.2018
Rapporteurs:	Jan Olbrycht (EPP, Poland) Isabelle Thomas (S&D, France)	2018/0166(APP)
Shadow rapporteurs:	Gérard Deprez (ALDE, Belgium) Liadh Ní Riada (GUE/NGL, Ireland) Marco Valli (EFDD, Italy)	Special legislative procedure (APP) (Consent – Unanimity in the Council. The Parliament has the power to accept or reject the Council's position on the proposal)
Next steps expected:	Agreement of Council position and request for Parliament's consent to its adoption	



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Introduction

The multiannual financial framework (MFF) is the financial planning tool of the European Union (EU), and gives an overview of its priorities from a budgetary perspective. Its main objective is to ensure the orderly development of expenditure in line with EU priorities and within the limits of the Union's own resources.[1] The MFF is linked to the concept of budgetary discipline: EU acts likely to have significant budgetary implications must comply with the MFF, on the basis of Article 310(4) of the Treaty on the Functioning of the European Union (TFEU).

For each major category of EU expenditure ('heading'), the MFF details the maximum annual amount ('ceiling') of resources that the EU can commit. Annual budgets must comply with the ceilings set in the relevant MFF. Being legal pledges to provide finance once given conditions are met, commitments do not necessarily lead to payments in the same financial year. An annual ceiling for overall payments is also set.

Initially called 'financial perspectives', EU multi-year financial planning was first introduced in 1988 with a view to overcoming crises in the annual budget procedure due to frequent disagreements between Parliament and Council. Historically, real spending has remained below the MFF ceilings. While the frameworks covering the periods up to 2013 took the form of an annex to an interinstitutional agreement (IIA) between Parliament, Council and Commission, the Lisbon Treaty brought the practice of multi-year financial planning into EU primary law, introducing specific requirements regarding the establishment of an MFF (Article 312 TFEU). The MFF is now to be laid down for a period of at least five years[2] in a Council Regulation. A special legislative procedure applies, with the Council acting unanimously after receiving the consent of the European Parliament (absolute majority). The European Council may authorise the Council to act by qualified majority (*passerelle* clause). If by the end of an MFF no agreement on a new one has been reached, the ceilings and other provisions in place for the final year of the expiring MFF will apply automatically until a new MFF regulation is adopted. However, the lack of an agreement may hamper the adoption of related EU operational programmes, resulting in legal and financial uncertainties.

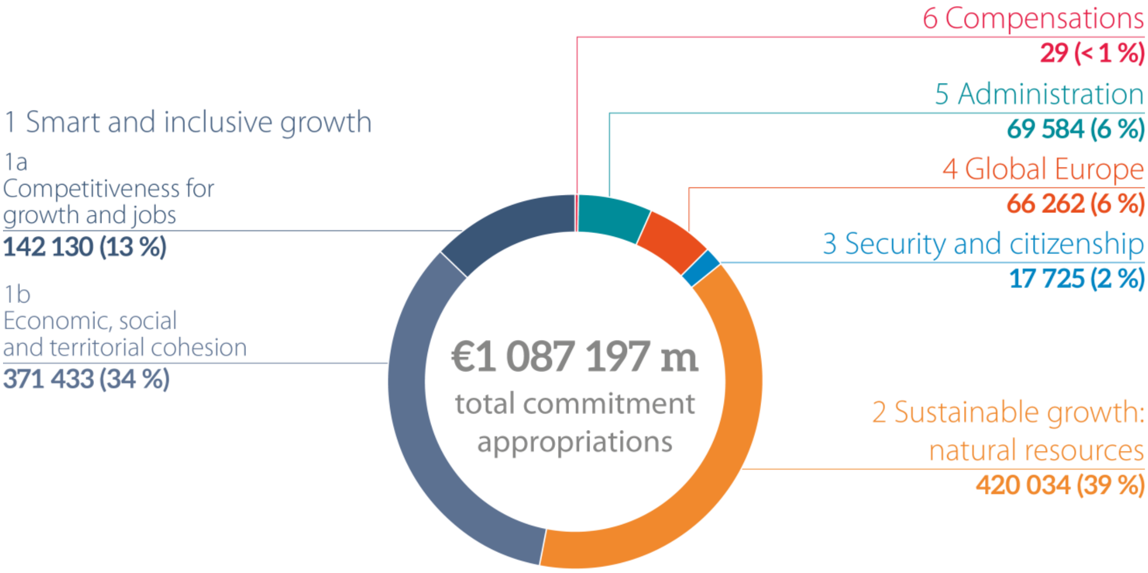
Existing situation

Covering the years 2014 to 2020, the current MFF is laid down in Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 (the MFF Regulation). The EU must establish a new MFF for the post-2020 period. At the time of its adoption, the 2014-2020 MFF was endowed with total resources of €959.9 billion for commitments and €908.4 billion for payments in 2011 prices, corresponding respectively to €1 087.1 billion and €1 023.9 billion in current prices.[3]

While the European Council is not formally part of the legislative procedure leading to the adoption of the MFF, it played a major role in shaping the 2014-2020 MFF. Negotiated between 2011 and 2013 against the backdrop of the economic crisis and fiscal consolidation in Member States, the current framework is the first to have lower resources in comparison with the previous programming period (2007 to 2013). In constant prices, the total ceilings for commitments and payments decreased by €34.2 billion (3.4 %) and by €34.4 billion (3.7 %) respectively. Along similar lines, the share of the European Union's gross national income (GNI) devoted to the EU budget was set at 1 % for commitments and 0.95 % for payments (down from 1.12 % and 1.06 % for the 2007-2013 period).

Figure 1 shows the distribution of commitment appropriations (current prices) among the six major spending categories (one has two subcategories or 'subheadings'). The names of heading 1 'smart and inclusive growth' and of heading 2 'sustainable growth: natural resources' reflect the priorities of the Europe 2020 strategy, the EU's agenda for growth and jobs for the current decade. Taken together, headings 1 and 2 account for more than 85 % of the total. The other three main categories of expenditure – heading 3 'security and citizenship', heading 4 'global Europe', and heading 5 'administration' – have more limited shares. Heading 6 'Compensations' relates to €29 million (current prices) allocated to Croatia in 2014 in connection with its accession to the EU the previous year.

Figure 1 – 2014-2020 multiannual financial framework by heading (€ million, current prices)



Data source: EPRS, based on European Commission.

In addition, the MFF contains some special instruments outside its ceilings (the Flexibility Instrument, the Emergency Aid Reserve, the European Union Solidarity Fund and the European Globalisation Adjustment Fund) and flexibility provisions, to allow room for manoeuvre in case of unexpected events. The challenge is to strike the right balance between predictability of investments and the capacity to address the unforeseen events and new priorities that can emerge during a rather long programming period. The European Parliament made stronger flexibility provisions one of the conditions subject to which it would give its consent to the MFF Regulation.

From the outset, the 2014-2020 MFF has been confronted with a number of challenges: constant pressure on the 'security and citizenship' and 'global Europe' headings in the context of growing instability in the EU's neighbourhood, the migration crisis and security threats; a continued significant investment gap in the EU many years after the outbreak of the financial and economic crisis; a high abnormal payments backlog, afflicting the EU budget at the end of both 2014 and 2015;[4] and the knock-on effect of the late adoption of the MFF (December 2013) which delayed the start of its 2014-2020 implementing programmes.

The measures taken by EU institutions and Member States to try and address these challenges included: leaning heavily on the resources available under the relevant flexibility tools in the first years of the MFF; the establishment of budgetary tools at least partially outside the EU budget that combined financing from the EU budget and from other sources (e.g. the European Fund for Strategic Investments – EFSI; EU trust funds for external action; and the Facility for Refugees in Turkey); and revision of the MFF to transfer unused 2014 funding allocations under shared management (the bulk of the amount relating to cohesion policy spending) to 2015 and beyond.

Resources available under flexibility provisions and special instruments were used up almost completely during the first years of the 2014-2020 MFF. In June 2017, the mid-term revision of the MFF, for which the European Parliament had long pushed, was used to replenish and strengthen such instruments with a view to increasing the capacity of the EU budget to respond to unexpected challenges and to avoiding a repeat of abnormal payments backlogs in the final years of the framework. The mid-term revision was part of a broader package of initiatives, whose objectives included enhancing EU instruments and resources devoted to job creation, growth, migration and security challenges, without modifying MFF ceilings.[5]

Parliament's starting position

In October 2017, Parliament stressed that the post-2020 framework should be underpinned by a strategic vision of EU priorities and endow the EU with sufficient resources to achieve its objectives. On 14 March 2018, Parliament adopted a resolution on the next MFF, outlining its position and input ahead of the Commission proposals. According to the resolution, the next MFF should be part of a broader strategy for the future of Europe, and build on well-established EU policies. Taking account of the needs stemming from current and new EU priorities and commitments, Parliament estimated that the overall ceiling of the post-2020 MFF should be set at 1.3 % of the EU-27 GNI in the light of the expected withdrawal of the United Kingdom from the EU.

As regards specific policy areas, Parliament called for substantial increases in the resources devoted to research, development and innovation, and to small and medium-sized enterprises, as well as to student mobility (Erasmus+) and the fight against youth unemployment. Likewise, infrastructure projects under the Connecting Europe Facility were identified as requiring higher allocations. Looking at emerging priorities, the resolution singled out three policy areas with both an internal and an external dimension, where the EU should fully take on its role: 1) asylum, migration and integration; 2) protection of external borders; and 3) common internal security and defence. Parliament stressed that additional political priorities should receive additional financial resources, and rejected any attempts to renationalise traditional EU policies such as cohesion and agriculture, considering that the benefits that they bring to EU citizens justify their continued support under the MFF.

Other elements supported in the resolution, often in line with long-standing Parliament positions, include: the further strengthening of the flexibility provisions of the MFF, which have proved instrumental in addressing new challenges during the current programming period; a compulsory mid-term review and revision; an appropriate level of payment appropriations that avoids a new accumulation of unpaid payment claims; the continuation of investment support schemes in the footsteps of EFSI; the development of a stabilisation function for the euro area and of a convergence facility for Member States on their way to adopt the common currency; and the integration of the intergovernmental European Development Fund (EDF) into the EU budget. Parliament also stressed that the expenditure and revenue sides of the EU budget should be negotiated as a single package, stating that its consent to the new MFF would be conditional on progress on EU financing reform as addressed in a separate resolution on the EU's own resources system.

European Council initial exchange of views

In February 2018, 27 EU Heads of State or Government discussed the political priorities for the EU and their translation into the next MFF. Given its expected withdrawal from the EU, the UK did not take part in the informal meeting that had other points on the agenda such as issues related to the next institutional cycle of the EU. European Council President Donald Tusk declared that EU leaders agreed to increase common expenditure on stemming illegal migration, on defence and security, and on the Erasmus+ programme. He added that many Member States drew attention to the continued importance of expenditure for cohesion, agriculture, research and innovation, and transnational infrastructure projects. On account of the fact that the UK is historically a net contributor to the EU budget, President Tusk noted the need to address the revenue gap caused by the UK's withdrawal, given the relationship between priorities and the overall size of the MFF.

Preparation of the proposal

The debate on the post-2020 MFF and possible reform of the EU budget started at the very beginning of the current programming period. Unsatisfied with the limited changes to the EU's financing system agreed by the European Council in 2013, the European Parliament included the creation of an interinstitutional high-level group on own resources (HLG) among the conditions for giving its consent to the 2014-2020 MFF regulation. The HLG, which was set up by Parliament, Council and Commission back in 2014, reviewed not only the revenue side of the budget, but also

EU expenditure, stressing how closely related the two aspects are. Presenting its final report in January 2017, the HLG recommended in-depth reform of both revenue and expenditure to increase the ability of the EU budget to respond to priorities.

Confirming its salience, discussions on the next MFF have become part of the broader debate on the future of the EU, which was kick-started by the Bratislava Declaration agreed by 27 EU Heads of State and Government in the wake of the UK referendum, a Commission white paper and the Rome Declaration adopted on the 60th anniversary of the Treaties of Rome. This development reflects the political nature of the MFF, which translates agreed EU policy priorities into budgetary figures.

While the post-2020 MFF proposal was originally due by December 2017, the Commission decided to postpone it until mid-2018. Various contributions have fed into the preparation of the next MFF, including mid-term evaluations of a number of EU sectoral policies and spending programmes, such as the seventh cohesion report published in October 2017. The mid-term revision of the current MFF contributed to the debate on possible developments for the next framework as well.

The June 2017 reflection paper on the future of EU finances, which the European Commission presented as part of the wider debate on the future of the EU, made a significant input to the process. Taking into account the conclusions and recommendations of the HLG on own resources, the document identifies the key principles that should drive any reform, irrespective of the way forward chosen by the EU. These principles are: 1) concentrating resources on the policy areas with the highest EU added value, selected through criteria such as Treaty objectives and obligations, economies of scale, and public goods with an EU dimension; 2) continuing simplification efforts with a view to further streamlining implementation; 3) keeping the creation of tools outside the EU budget to a minimum so as to ensure democratic accountability and transparency; and 4) strengthening the flexibility provisions with a view to reducing the rigidity inherent in a framework covering many years.[6] The text concludes that the EU will certainly change after 2020, and that its budget will evolve accordingly, depending on the path that is chosen for the future of the EU.

In February 2018, the European Commission produced its contribution for the informal European Council meeting, illustrating the financial impact of various possible policy choices that had been evoked in the vivid debate surrounding the next MFF. The text estimated the resources that, under different policy options, the EU budget would need in domains such as external border control, defence, mobility of young people, digital transformation, research and innovation, economic and monetary union, agriculture, and cohesion. In addition, the Commission outlined ways to modernise the EU budget, for example by streamlining the use of financial instruments and promoting a stronger link between EU funding and respect for the EU's fundamental values.

EU institutions contributed ideas and views to the discussion on various occasions. Examples include the European Parliament's resolution on the post-2020 MFF ahead of the Commission's proposals (see 'Parliament’s starting position' above) and the European Court of Auditors' recommendations on the preparation of the post-2020 framework.

In addition, the European Commission consulted stakeholders, including all Member States, on their expectations for the next MFF, with a view to preparing a balanced proposal that was both ambitious and realistic. Günther Oettinger, European Commissioner for Budget and Human Resources, quantified the possible impact of the UK's withdrawal from the Union in terms of reduced resources for the EU budget at €12-15 billion per year. He suggested that part of this gap could be covered by fresh resources and the remainder by cuts to expenditure.

Many other stakeholders are involved in the debate. There is general agreement that the EU budget needs reform. A focus on results, leverage, synergies, conditionality and European added value is often mentioned among the principles that should underpin any changes. Stakeholders from academic, expert and political circles underline that in a rapidly evolving world, the design of the EU budget must find a balance between predictability of investments and capacity to respond to new challenges and priorities. The problems that the current MFF has faced (see 'Existing situation' above) demonstrate how difficult the task is, and the weaknesses of the EU financing system.[7]

The main issues for consideration and possible modifications that have emerged from the debate include: the size, structure and priorities of the MFF; its duration; its flexibility provisions; the unity of the budget (following the recent proliferation of instruments at least partially outside the budget); the streamlining of financial instruments; the role of the budget in EU economic governance and respect for the rule of law; and the creation of instruments with a stabilisation function for the euro area.

Addressing specific requests from other EU institutions and stakeholders, the European Commission carried out a review of the 2014-2020 MFF and its spending programmes to underpin its proposals for the next programming period. Published together with the proposal for the new MFF, a Commission staff working document presented the outcome of this spending review, which identified lessons learnt, features to be retained and amplified, and areas for improvement.

The changes the proposal would bring

In May and June 2018, the European Commission presented its package of proposals for the next MFF, the related implementing programmes and a reform of the own resources system. The package is designed for a Union with 27 Member States due to the expected withdrawal of the UK. The proposed MFF Regulation covers the 2021-2027 period, and its commitments amount to €1 134.5 billion in constant 2018 prices,[8] which corresponds to 1.11 % of EU-27 GNI (i.e. with UK GNI subtracted). Payment appropriations are set at €1 104.8 billion (1.08 % of EU-27 GNI).

Table 1 (See Annex) provides an overview of the MFF proposal and its new structure, comparing it with expenditure in the current programming period after deduction of the amounts relating to the UK. Focusing on the proposed MFF Regulation proper and the accompanying proposal for an interinstitutional agreement (IIA) on budgetary matters (see box below), the following elements can be observed as regards the main issues for consideration to have emerged in the preceding debate:

- Duration – the Commission again proposes a seven-year framework that is not aligned to the five-year political cycle of the European Commission and the European Parliament. Parliament had called for the duration of the MFF to move progressively towards a five-plus five-year period with a mandatory mid-term revision.
- Unity of the budget – the Commission has proposed to bring the EDF, the intergovernmental Fund for development cooperation with the African, Caribbean and Pacific group of states (ACP), into the EU budget and the MFF, as demanded repeatedly by the European Parliament.
- Size – according to the European Commission, total resources are broadly similar to the current programming period in real terms, when taking into account the inclusion of the EDF in the EU budget.[9] The expected withdrawal of the UK makes comparisons harder than in previous negotiations and the conclusions depend on the perspective adopted (e.g. amounts in constant or current prices, with or without the UK). For example, when deducting the amounts relating to the UK in the current period, the proposal represents a 5 % increase in absolute figures, but a decrease from 1.16 % to 1.11 % as a share of EU-27 GNI. In any case, total allocations are well below 1.3 % of EU-27 GNI, the level estimated necessary by Parliament for the EU to address all its priorities and objectives.
- Structure and priorities – the Commission proposes a new structure with seven headings instead of six, with a view to aligning the presentation and nomenclature of the budget to an evolving set of EU priorities that is outlined in the communication accompanying the proposed MFF Regulation (See Table 1 in Annex). As for the horizontal priority of climate mainstreaming across all EU programmes, the Commission would like to increase the share of the EU budget contributing to climate-related objectives from 20 % to 25 %. Two separate headings are created for policy areas that have played a major role in the EU debate in recent years: 'Migration and border management' and 'Security and defence'. Within headings, the

communication presents expenditure around 17 policy clusters, including 'European public administration'. Three headings include the following sub-ceilings: 'Economic, social and territorial cohesion' (under heading 2 'Cohesion and values'); 'Market-related expenditure and direct payments' (under heading 3 'Natural resources and environment'); and 'Administrative expenditure of the institutions' (under heading 7 'European public administration'). An increase in resources is planned for activities related to various domains such as: research, innovation and digital transformation; young people; external border control; security; defence; migration; and external action.[10] According to the European Commission, 80 % of these reinforcements would come from fresh resources, while redeployments from other policy areas would provide the remaining 20 %. In this respect, traditional policies such as agriculture and cohesion would see their resources decrease by around 15 % and 11 %, respectively (in constant prices). In addition, some EU instruments move to a different heading as compared to the current MFF. This modification has implications for the overall flexibility of the framework since shifting resources is easier within headings than between them.

- Flexibility – various elements of the proposal seek to ensure that the MFF can tackle unforeseen events and needs rapidly, by reinforcing its flexibility provisions. Proposed modifications include provisions to increase the possibility to move resources between headings and financial years, as well as within and between individual programmes. In particular, as regards programmes adopted under the ordinary legislative procedure, the possibility to depart from the indicative financial envelope set in the relevant legislative acts would be raised from the current 10 % to 15 % (point 16 of the proposed IIA). Unallocated margins under the headings are in general higher than in the current MFF. In addition, higher annual amounts would be available for special instruments outside the MFF ceilings (see Figure 2), in particular the European Globalisation Adjustment Fund (Article 9 of the proposed MFF Regulation), the European Union Solidarity Fund (Article 10), the Emergency Aid Reserve (Article 11), and the Flexibility Instrument (Article 13). The scope of the Emergency Aid Reserve would be extended to include emergencies within the EU. As for commitments and payments mobilised under special instruments, the proposed text explicitly clarifies that both have to be considered over and above the relevant MFF ceilings (Article 2(2)).[11] Other modifications in the regulation and the draft IIA are intended to streamline the mobilisation of special instruments. Furthermore, the transformation of the global margin for commitments into a Union reserve (Article 12) would extend its size and scope, increasing the possibilities to resort to unused margins and decommitted resources from previous financial years. At the same time, the global margin for payments (Article 4) would be strengthened to ensure specific and maximum flexibility, by eliminating the caps that currently limit the technical adjustment of the payment ceiling.

Figure 2 – Annual amounts available for special instruments outside the MFF ceilings: Commission proposal and 2014-2020 resources (2018 prices, € million)

Commitments	2014-2020 resources	Commission proposal for 2021-2027	Commission proposal vs 2014-2020 resources
European Globalisation Adjustment Fund	172.3	200	+16.1 %
European Union Solidarity Fund	574.3	600	+4.5 %
Emergency Aid Reserve	344.6	600	+74.1 %
Flexibility Instrument	689.0	1 000	+45.1 %

Source: EPRS, based on COM(2018) 322 final and COM(2017) 473 final.

- Review, revision and adjustments – the possibility to review, revise and adjust the MFF during its timeframe is linked to the concept of flexibility. The European Commission has proposed a compulsory mid-term review of the functioning of the MFF to be carried out by December 2023 and to be accompanied, as appropriate, by proposals for its revision (Article 16). The European Parliament has repeatedly stressed the importance of a compulsory mid-term revision. At a more technical level, the proposed text mantains the articles for the annual technical adjustment of the framework and for a one-off update of cohesion policy envelopes (in 2024) to take account of the most recent statistics for the calculation of relevant national allocations. New provisions are introduced for adjustments that may be required by a proposed new mechanism that is designed to suspend, reduce or restrict access to EU funds if general deficiencies to the rule of law put at risk their sound financial management or the financial interests of the EU. In addition, in the event of the late adoption of programmes under shared management, the Commission has proposed that the reprogramming of their resources be carried out through a technical adjustment rather than a more time-consuming revision (as is now the case, and as proved necessary at the beginning of the current period).

Interinstitutional agreement on budgetary discipline, cooperation in budgetary matters and sound financial management

An accompanying proposal for an interinstitutional agreement (IIA) aims to promote budgetary discipline and cooperation in budgetary affairs between Parliament, Council and Commission, on the basis of Article 295 TFEU. The IIA is composed of three parts focusing respectively on the MFF and its special instruments, on cooperation during the budgetary procedure, and on sound financial management of EU funds. Within Parliament, the Constitutional Affairs Committee (AFCO) is in charge of the file, while the Committee on Budgets (BUDG) is consulted for an opinion.

Source: Legislative Observatory (OEIL), Interinstitutional agreement procedure 2018/2070 (ACI).

Other elements for consideration that emerged in the debate on the reform of EU finances were addressed in different proposals of the MFF package, rather than in the draft MFF Regulation and IIA proper. Examples of such proposals are: the reduction of the number of implementing programmes from 58 to 37, in an effort to simplify EU finances and increase efficiency of spending (e.g. a new InvestEU programme would streamline all innovative financial instruments currently dispersed across various programmes); the proposed creation of two new instruments aimed at contributing to a stable and resilient economic and monetary union (a reform support programme under the new heading 2 and a European investment stabilisation function outside the MFF); and a new mechanism that would promote a stronger link between the EU budget and respect for the rule of law.

Advisory committees

On 25 July 2018, the Council decided to consult both advisory committees on the proposal for the regulation laying down the MFF for the years 2021 to 2027. In its opinion of 19 September 2018 (rapporteur: Javier Doz Orrit, Workers – Group II, Spain), the European Economic and Social Committee (EESC) acknowledged the European added value of the programmes for which the European Commission was proposing the main increases in resources, but was critical of the cuts to cohesion and agriculture that would help to finance them. The EESC recommended keeping the level of resources for cohesion policies at least the same as for the current period and increasing the next MFF to 1.3 % of EU-27 GNI. The European Social Fund was one area for which the Committee wanted higher allocations, since the proposed 6 % cut in real terms was deemed to contradict the recent interinstitutional proclamation of the European Pillar of Social Rights. While recognising the significant increase in resources for environmental and climate action, the EESC found their overall level unambitious, expressing concern that the proposed cuts to agriculture would make it impossible to implement a sustainable rural development model. The proposed resources for a euro-area investment stabilisation mechanism were assessed as largely insufficient in the event of a crisis.

The European Committee of the Regions' opinion of 9 October 2018 (rapporteur: Nikola Dobroslavić, EPP, Croatia) criticised the proposal as not sufficiently ambitious, sharing the European Parliament's view that the size of the post-2020 MFF should be brought to at least 1.3 % of GNI. While welcoming the proposals to increase the budget for policies relating to major new challenges, the Committee strongly opposed their financing through the proposed reduction in cohesion and agricultural expenditure, considering that such cuts would be detrimental to the growth and development of Europe's regions. Making recommendations to fine-tune the proposed mechanism promoting a stronger link between the EU budget and respect for the rule of law, the opinion welcomed the European Commission's efforts to create such a mechanism and to ensure that it had no negative impact on the final beneficiaries of EU funds. In addition, the Committee welcomed the proposals promoting greater flexibility, but stressed that this development should not hinder long-term planning certainty or the strategic direction of programmes. In particular, the Committee called for the involvement of regional and local authorities in decisions relating to the reallocation of resources under shared management. Finally, the EU institutions were invited to reach a swift agreement on the next MFF so that the next generation of EU programmes and funds could be adopted in good time for the start of the new programming period.

National parliaments

The German Bundesrat welcomed the proposal as a good starting point for the negotiations, considering it closely aligned to the political priorities of the EU-27. Supporting a reasonable and moderate increase in Member States' contributions, the opinion was critical of the proposed cuts to resources for cohesion and agriculture. The Czech Senate assessed the principles and priorities underpinning the proposal positively, but disagreed with the increase in the EU budget in the light of the expected withdrawal of the UK. The document called for reduced administrative expenditure, increased allocations for research and innovation, and greater flexibility in the distribution of resources under the cohesion policy. The Portuguese Parliament strongly opposed any cuts to cohesion and agriculture expenditure, deeming these policies to deliver concrete results for EU citizens. The opinion underlined that any additional tasks entrusted to the EU should be matched by additional financial resources.

Stakeholders' views[12]

The proposals for the next MFF (including the own resources system) have received a mixed response. They do not represent a radical redesign of the current provisions, but rather their evolution. Defining its package as pragmatic and modern, the European Commission appears to suggest that it has taken into account the extensive consultations carried out beforehand to propose a degree of reform on which an agreement is deemed politically achievable.

Analysts and observers have differing views on the extent of the modifications that the proposals imply and their effectiveness. The Bruegel think-tank gives a prudently positive assessment, noting the major constraints with which the European Commission was confronted in preparing the proposal. According to this analysis, the positive elements of the package include: higher allocations for policy areas that provide European public goods (border control, defence, research and innovation, digital sector, and migration); higher national co-financing for cohesion and rural development; stronger flexibility provisions; and an attempt to link the EU budget to respect for the rule of law. Conversely, the authors assess other elements of the package negatively, such as: insufficient efforts to simplify the budgetary system; a too limited increase in resources for external policies; and ineffective design of the two new instruments put forward to reinforce economic and monetary union.

According to a policy brief by the Jacques Delors Institute, the planned rebalancing of resources between traditional policies (agriculture and cohesion) and new priorities is more ambitious than in the Commission's proposals for previous MFFs, but not radical. While recalling the various factors that make comparability with the size of the current MFF difficult, the authors conclude that the economic environment should smooth the impact of the expected withdrawal of the UK. The document notes some conceptual innovations in spending programmes such as the streamlining of the use of financial instruments by means of the InvestEU programme.

The European Policy Centre (EPC) assesses some developments as positive, such as: increased resources for new priority areas, climate mainstreaming across all EU programmes with the target of devoting 25 % of the MFF to climate-related objectives, and the endeavour to tie the budget to respect for the rule of law in Member States. However, continuity is deemed to prevail and the author calls for more ambitious reform that, despite the limited size of the EU budget, would align its expenditure more closely to the Union's principles and goals.

The CEPS think-tank sees the proposed MFF as old-fashioned. Considering the novelties overall to be minor, the commentary points to elements of continuity such as the absence of provisions introducing national co-financing for income support to farmers in agricultural expenditure. In another commentary, the same think-tank outlines the limitations of the EU budget, including the proposed European investment stabilisation function, in fulfilling a stabilisation role against economic shocks. The authors conclude that the Commission proposals do not provide a political process to identify stabilisation as a necessary component of EU expenditure.

Legislative process

When presenting its MFF proposals in May 2018, the European Commission called for swift negotiations to take a maximum of one year, with a view to reaching an agreement before the European Parliament elections and the European Council meeting in Sibiu in May 2019. It noted the negative knock-on effect that late adoption of the current MFF had had on the start of its implementation, pointing to the objective of avoiding a repeat of the situation. This timeline looked ambitious from the outset, considering that it took around two and a half years to negotiate and adopt the MFF Regulation for the 2014-2020 period.

Work on the proposed package for the post-2020 MFF and own resources started soon after the Commission tabled it. On 30 May 2018, the European Parliament outlined its first reaction to the proposals in a resolution that reflected mandates previously adopted on the topics, urging the Council to ensure that the next MFF endowed the EU with sufficient resources to deliver on its objectives and priorities. In Council, the rotating presidencies started to steer examination of the proposal at technical level. The European Council of 28 and 29 June 2018 took note of the MFF package put forward by the Commission, inviting the European Parliament and the Council to examine the proposals in a comprehensive manner and as soon as possible.

In November 2018, the European Parliament was ready to start negotiations with Council, having detailed its position in a resolution on the interim report by its Committee on Budgets. The interim report, which built on Parliament's previous resolutions, translated Parliament's mandate into budgetary figures, with a detailed breakdown per programme, and set out amendments to the proposed MFF regulation and accompanying interinstitutional agreement. Parliament expressed concern that proposed MFF resources as a share of EU-27 GNI were lower than in the 2014-2020 period (1.11 %, down from 1.16 %) and would not permit the EU to tackle its commitments. Taking the UK's withdrawal into account, Table 2 (See Annex) summarises the main changes requested. These include further reinforcing priorities such as: research and innovation (Horizon Europe), youth (Erasmus+ and measures against unemployment), transport, space, small businesses, environment, climate, neighbourhood, and development; and restoring resources for agriculture and cohesion to their 2014-2020 levels. The proposed modifications would bring the next MFF to €1.32 trillion (1.3 % of EU-27 GNI). The text welcomes proposals for increased flexibility and own resources, supporting even more ambitious reform. In addition, Parliament reiterates that negotiations should tackle the MFF and EU revenue jointly, urging the Council to start them rapidly. The timeline proposed by the Commission aiming at agreement before the European elections was greeted positively, with a view to avoiding the negative impact of late adoption on the implementation of the next generation of EU programmes and funds. However, a mandatory mid-term revision should enable the new

Parliament elected in May 2019 to carry out a meaningful adjustment of the post-2020 MFF, and the relevant Commission proposal should be tabled no later than 1 July 2023. A seven-year duration should apply one last time, before moving to five-plus-five-year frameworks with compulsory mid-term revisions to align the EU's budgetary and institutional cycles more effectively. The EU budget's contribution to climate-related objectives should be no lower than 25 % of total expenditure over the 2021-2027 period, and the annual share should reach 30 % as soon as possible, and at the latest by the final year of the framework. In addition, the European Parliament called on the European Council to make decision-making smoother, by activating the *passerelle* clause of the Treaty, which would allow the Council to act by qualified majority on the MFF.

The European Council discussed the details of the next MFF for the first time in December 2018, welcoming the intensive preparatory work carried out by the Council in 2018. In addition to a progress report, the Austrian Presidency produced a draft negotiating box, a technical tool that lists issues to be addressed and related options with a view to facilitating an agreement. EU leaders invited the Romanian Presidency to continue this technical work and develop an orientation for the negotiations during the first half of 2019, with the aim of reaching an agreement in the European Council in autumn 2019.

The December 2018 conclusions of the European Council meant that the ambitious timeline initially proposed by the Commission and supported by the European Parliament in its resolutions was dropped. In its contribution ahead of the meeting, the Commission acknowledged progress made on the negotiations thus far, but already outlined an updated timeline. The document urged leaders to reach agreement on the MFF in October 2019 and to work closely with Parliament, recalling the negative impact that a delayed adoption would have on the implementation of future programmes.

According to some observers, the new timeline with agreement planned for autumn 2019 may prove equally difficult. Such analyses point not only to the various challenging issues on which an agreement has to be reached (e.g. size of the budget, spending priorities and conditionality linked to the rule of law), but also to possible institutional delays, since decisions on five key EU appointments have to be adopted in the second half of 2019.

The European Court of Auditors (ECA) has submitted a number of opinions and briefing papers on the legislative proposals for the 2021-2027 MFF to Parliament and Council. In February 2019, the ECA set out its remarks on the MFF package in a single document. The ECA welcomed the modernisation efforts, while identifying a number of weaknesses and proposing specific improvements. As regards the main MFF proposal, a July 2018 briefing paper focused in particular on the process of setting spending priorities; the flexibility provisions and the proposed allocation of funding; simplification and performance orientation in spending programmes; and accountability arrangements.

During the first half of 2019, the Romanian Presidency continued the intensive work at technical level, while the General Affairs Council (GAC) held regular meetings on the topic and on elements of the overall MFF package. At the informal summit of 9 May 2019 in Sibiu, EU leaders committed to endow the EU with 'the means necessary to attain its objectives and carry through its policies'. Ahead of the European Council meeting of June 2019, the Commission reaffirmed the urgency of a timely agreement on the MFF for beneficiaries of EU policies, calling on EU leaders to establish a roadmap to bring the negotiations to a successful conclusion in the autumn. The revised draft negotiating box of 14 June 2019 suggests that differences of opinion between national delegations persist on various elements of the proposal. On 20 June 2019, the European Council welcomed the work done in the Council and took note of the update, calling on the incoming Finnish Presidency to continue the work. The European Council now plans to discuss the MFF in October 2019, with a view to reaching an agreement before the end of the year.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

- D'Alfonso A., Multiannual financial framework 2021-2027: Interim report on the Commission proposals, EPRS, European Parliament, 2018.

- D'Alfonso A., Delivorias A., Sapała M., Szczepanski M., Zachariadis I., Economic and budgetary outlook for the European Union 2019, EPRS, European Parliament, January 2019.

- Parry M., Sapala M., 2021-2027 multiannual financial framework and new own resources: Analysis of the Commission's proposal, EPRS, European Parliament, 2018.

OTHER SOURCES

Multiannual financial framework for the years 2021 to 2027, European Parliament, Legislative Observatory (OEIL).

Interinstitutional agreement on budgetary discipline, on cooperation in budgetary matters and on sound financial management, European Parliament, Legislative Observatory (OEIL).

ENDNOTES

1 The current Own Resources Decision sets the ceiling for payments at 1.20 % of the EU's gross national income (GNI).

2 So far, all the frameworks, except the first one for the 1988-1992 period, have covered periods of seven years.

3 Based on Article 6 of the MFF Regulation, these figures undergo an annual technical adjustment. See: European Commission, Technical adjustment of the financial framework for 2020 in line with movements in GNI (ESA 2010), COM(2019) 310 final, 15 May 2019.

4 For a thorough analysis of this issue see: A. D'Alfonso and M. Sapala, Payments backlog in in recent EU budgets: Lessons learnt and outlook, EPRS, European Parliament, November 2015.

5 A. D'Alfonso, 2014-2020 Multiannual Financial Framework (MFF): Mid-term revision, EPRS, 6 July 2017.

6 As regards the revenue side of the budget, the reflection paper adds that, with the withdrawal of the UK from the EU, it should be simplified by eliminating all current correction mechanisms.

7 For some interesting considerations on the reform of the EU budget, see for example: I. Begg, The EU budget after 2020, European Policy Analysis, Sieps, September 2017:9; and P. Becker, The EU budget's mid-term review: with its promising reform proposals, the European Commission lays the groundwork for the next, post-2020 budget, Stiftung Wissenschaft und Politik, SWP Comments 48/2016, Berlin, 2016.

8 Or €1 279 billion in current prices taking into account a 2 % annual inflation rate.

9 A modern budget for a Union that protects, empowers and defends: Questions and Answers, European Commission, Fact Sheet, Brussels, 2 May 2018.

10 As regards defence, the Commission is also proposing an off-budget European Peace Facility that would be endowed with €9.2 billion outside the MFF over the 2021-2027 period.

11 In the current programming period, the two arms of the budgetary authority have repeatedly shown different interpretations of the provisions concerning special instruments: the Council has considered that only commitment appropriations are outside the MFF ceilings, while Parliament deems both commitments and payments to be over and above the ceilings.

12 This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'European Parliament supporting analysis'.

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First edition. The 'EU Legislation in Progress' briefings are updated at key stages throughout the legislative procedure.

Annex

Table 1 – Proposal for the 2021 to 2027 multiannual financial framework (commitments, 2018 prices, € million)

Headings Policy clusters	'Virtual' 2014-2020 MFF (EU-27+EDF)	Share of the 'virtual' 2014-2020 MFF	Proposal 2021-2027 (EU-27+EDF)	Share of the proposal 2021-2027	% change vs EU-27 2014-2020
1. Single market, innovation and digital	**116 361**	**11.0 %**	**166 303**	**14.7%**	**+43 %**
1. Research and innovation	69 787	6.4 %	91 028	8.0 %	+30 %
2. European strategic investments	31 886	2.9 %	44 375	3.9 %	+39 %
3. Single market	5 100	0.5 %	5 672	0.5 %	+11 %
4. Space	11 502	1.1 %	14 404	1.3 %	+25 %
Margin	*-1 913*		*10 824*		
2. Cohesion and values	**387 250**	**35.8 %**	**391 974**	**34.5 %**	**+1 %**
5. Regional development and cohesion	272 647	25.2 %	242 209	21.3 %	-11 %
6. Economic and monetary union	273	<0.1 %	22 281	2.0 %	
7. Investing in people, social cohesion and values	115 729	10.7 %	123 466	10.9 %	+7 %
Margin	*-1 399*		*4 018*		
3. Natural resources and environment	**399 608**	**36.9 %**	**336 623**	**29.7 %**	**-16 %**
8. Agriculture and maritime policy	390 155	36.0 %	330 724	29.1 %	-15 %
9. Environment and climate action	3 492	0.3 %	5 085	0.4 %	+46 %
Margin	*5 960*		*814*		
4. Migration and border management	**10 051**	**0.9 %**	**30 829**	**2.7 %**	**+207 %**
10. Migration	7 180	0.7 %	9 972	0.9 %	+39 %
11. Border management	5 492	0.5 %	18 824	1.7 %	+243 %
Margin	*-2 621*		*2 033*		
5. Security and defence	1 964	0.2 %	24 323	2.1 %	+1 138 %
12. Security	3 455	0.3 %	4 255	0.4 %	+23 %
13. Defence	575	0.1 %	17 220	1.5 %	
14. Crisis response	1 222	0.1 %	1 242	0.1 %	+2 %
Margin	*-3 289*		*1 606*		
6. Neighbourhood and the world	**96 295**	**8.9 %**	**108 929**	**9.6 %**	**+13 %**
15. External action	85 313	7.9 %	93 150	8.2 %	+9 %
16. Pre-accession assistance	13 010	1.2 %	12 865	1.1 %	-1 %
Margin	*-2 027*		*2 913*		
7. European public administration	**70 791**	**6.5 %**	**75 602**	**6.7 %**	**+7 %**
TOTAL commitments	**1 082 320**	**100 %**	**1 134 583**	**100.0 %**	**+5 %**
In % of GNI (EU-27)	***1.16 %***		***1.11 %***		
TOTAL payments			**1 104 805**		
in % of GNI (EU-27)			***1.08 %***		

Source: EPRS, based on annexes to the European Parliament resolution on the MFF of 14 November 2018.

Table 2 – New MFF: Parliament resolution, Commission proposal and 2014-2020 allocations (€ million, 2018 prices, EU-27)

Commitments	2014-2020 (EU-27)	2021-2027 Commission proposal	2021-2027 Parliament resolution	EP resolution vs Commission proposal	Parliament resolution: items with *2014-2020 level restored* or additional increases or **new**[1]
1. Single market, innovation and digital	116 361	166 303	216 010	+29.9 %	Horizon Europe, InvestEU Fund, Connecting Europe Facility (CEF) Transport, decentralised agencies, single market programme, Fiscalis, EU anti-fraud programme, **sustainable tourism**, European space programme
2. Cohesion and values	387 250	391 974	457 540	+16.7 %	*European Regional Development Fund (ERDF) and Cohesion Fund (CF)*, *support for the Turkish-Cypriot Community*, European Social Fund+ (including a **child guarantee**), Erasmus+, Creative Europe, *Justice*, rights and values (including **Union values strand**), decentralised agencies
3. Natural resources and environment	399 608	336 623	404 718	+20.2 %	*European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD)*,[2] European Maritime and Fisheries Fund, *other*, programme for environment and climate action (LIFE), **Just Energy Transition Fund**, decentralised agencies
4. Migration and border management	10 051	30 829	32 194	+4.4 %	Decentralised agencies
5. Security and defence	1 964	24 323	24 639	+1.3 %	*Nuclear decommissioning*, decentralised agencies
6. Neighbourhood and the world	96 295	108 929	113 386	+4.1 %	Instrument(s) in support of neighbourhood and development policies, *overseas countries and territories (including Greenland), decentralised agencies, pre-accession assistance*
7. European public administration	70 791	75 602	75 602	=	
Total MFF ceilings	1 082 320	1 134 583	1 324 089	+16.7 %	
In % GNI (EU-27)	1.16 %	1.11 %	1.30 %		
Instruments outside ceilings	N/A	26 023	38 623	+48.4 %	Emergency aid reserve, EU Solidarity Fund, Flexibility Instrument

[1] In addition, the interim report increases the margins for headings 1, 2, 3 and 6 as compared to the Commission proposal.
[2] The interim report maintains the financing of the common agricultural policy for the EU-27 at the 2014-2020 level in real terms, while budgeting the initial amount of the agricultural reserve.

Source: A. D'Alfonso, Multiannual financial framework 2021-2027: Interim report on the Commission proposals, EPRS, European Parliament, November 2018.