BRIEFING

Post-European Council Briefing

Outcome of the special European Council, 20-21 February 2020

On 20-21 February 2020, EU Heads of State or Government held their first meeting specially dedicated to the 2021-2027 Multiannual Financial Framework (MFF) since the publication of the European Commission's proposal in May 2018. Despite intense preparations, and discussions lasting over two days, they failed to overcome their differences to find an agreement. At the end of the meeting, the President of the European Council, Charles Michel, declared that 'we need more time'. When, and under which conditions, the European Council will reconvene for another attempt to finding an agreement has not decided thus far.

1. Special European Council 20-21 February 2020

On 20-21 February 2020, EU Heads of State or Government met for a special European Council dedicated to the EU long-term budget for 2021-2027. This meeting was also the first European Council after the withdrawal of the United Kingdom (UK) from the EU, the departure of which will lead to an estimated €60-75 billion less funding for the EU's budget. The President of the European Council, Charles Michel, stressed that the current MFF discussions were made particularly difficult because of Brexit.

After a brief session with all Members of the European Council on 20 February, President Michel met with individual EU Heads of State or Government in 'bilateral' meetings until late in the night. Further 'bilaterals' took place the next morning. Additionally, President Michel held meetings with groups of Member States, notably with the 'frugal four' (Austria, Denmark, the Netherlands and Sweden), the Visegrad countries (Czechia, Hungary, Poland and Slovakia) and other constellations (for example France and Germany, together with the 'frugal four'). Following a final session around 19.00, with all EU Heads of State or Government, the European Council concluded without a political agreement between the EU Heads of State or Government.

Charles Michel expressed the view that, despite not reaching an agreement, the special meeting of the European Council had been very useful and necessary insofar as it had allowed for a political debate. It had enabled certain conclusions to be drawn, which had helped to assess the different positions and would improve the chances of success in the future. Commission President Ursula von der Leyen, concurred, adding that this was really the first time that the European Council had gone into the details of the various headings of the MFF and discussed the different Member States' positions.

Following the European Council, the President of the European Parliament, David Sassoli, stated that Parliament was disappointed with 'the failure of the European Council to find an agreement on the Multiannual Financial Framework and on own resources'. He added that 'if we want to be able to deliver on the expectations of our citizens, we need to back up our ambitions with sufficient funds'. This disappointment was also expressed by several Heads of State of Government, such as Pedro Sanchez, the Spanish Prime Minister.

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PE 642.815 – February 2020

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2. Main discussion points

Despite the intensive discussions held by Charles Michel with all EU Heads of State or Government in preparation for this special European Council, EU leaders were not able to overcome their differences. Individual EU Heads of State or Government reported that negotiations had been intensive and positions were still far apart; it had evidently not been possible to close the existing gaps at that special meeting. The strongest differences persist on the following points: the level of ambition (the size of the EU budget), the balance between 'traditional' European policies (for example, agriculture and cohesion) and new policies and challenges (e.g. migration, climate change and innovation), as well as the question of correction mechanisms and conditionality.

Overall size

A large gap remains between the various positions on the overall size of the 2021-2027 MFF expressed in percentage of gross national income (GNI). While the Parliament calls for a MFF based on 1.3 % of GNI, the European Commission proposed a commitments ceiling at 1.114 % of GNI. Amongst the Member States having disclosed information, most indicate preferences between 1.0 % and 1.11 % of GNI. A group of net contributors to the EU budget (Member States contributing more to the EU budget than the amount of EU funding they receive), and referred to as the 'frugal' Member States, insist that the EU's next seven-year budget should be capped at 1 % of GNI. These 'frugal four' convened prior to the European Council to coordinate their positions at the European Council, jointly attended 'bilateral discussions' with the European Council President following the closing of an initial session of the European Council with all members, and reconvened together before the start of the Friday session of the European Council.

The Dutch Prime Minister, Mark Rutte, stressed that the differences in views cut across European political party membership. For example, each of the three big European political party affiliations (EPP, S&D/PES and Renew Europe) are represented within the 'frugal four' group (Austria, Denmark, the Netherlands and Sweden).

Balance between European policies

Another highly debated point in the MFF discussions is the balance between funding 'traditional' and 'modern' policies. Traditionally, the biggest share of MFF expenditure is earmarked for the common agricultural policy (CAP) and cohesion policies, representing 39 % and 34 % of the 2014-2020 MFF respectively. In Charles Michel's proposal for the 2021-2027 MFF, agriculture and cohesion would be reduced by 14 % and 12 % respectively. The 'friends of cohesion', a group currently numbering 16 Member States (Bulgaria, Cyprus, Czechia, Croatia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain), which defends a strong level of cohesion funding and opposes cuts in this area in the 2021-2027 MFF, stressed on 1 February 2020 that the level of funding for cohesion policy and CAP should be maintained at the same level in 2021-2027 in real terms as under the 2014-2020 MFF. They also support the idea that all rebates would be abolished from the beginning of the next MFF.

In most cases, those Member States that stress the importance of cohesion and agricultural policy also plead for an ambitious long-term 2021-2027 budget, providing 'the European Union with sufficient resources' to fulfil its objectives. In contrast, many of the Member States preferring to concentrate on more 'modern' policy areas also favour a reduction in, or at least no expansion of, the total EU budget.

Rebates

A number of Member States (i.e. Austria, Germany, Denmark, the Netherlands and Sweden) benefit from rebates or 'budget correction mechanisms' to compensate for what is, in their view, 'a budgetary burden which is excessive in relation to its relative prosperity'. The biggest and most famous was the UK rebate, obtained by the then UK Prime Minister, Margaret Thatcher, at the

Fontainebleau summit in 1984. Since then, other Member States have argued that their EU budgetary burden is excessive, requesting different forms of reduction in their contribution.

In the context of the UK withdrawal from the EU, the European Commission argued in its MFF proposal that the elimination of all rebates would increase the fairness of the future long-term budget, while at the same time leading to significant increases in contributions by certain Member States. The European Commission therefore proposed to phase out the current rebates over time. The 'frugal four', together with Germany, advocate that reductions should also continue in the 2021-2027 MFF. The request for a fair balance within the group of net contributors (i.e. the continuation of the rebate system) was strongly reiterated by the German Chancellor, Angela Merkel at the special European Council meeting.

Own resources

The EU budget is currently largely financed by three main categories of revenue: i) 'traditional' own resources (mainly customs duties); ii) a value added tax based own resource; and iii) the gross national income based own resource. The GNI-based own resource, which is perceived as a national contribution, represented about 67% of revenue in 2018.

The proposal of the European Council's President includes the idea of two new own resources, based respectively on a 'national contribution calculated on the weight of non-recycled plastic packaging waste' and 'any revenue generated by the European Union emissions trading system exceeding the average annual revenue per Member State generated by allowances auctioned over the period 2016-2018'. President Michel also left open the possibility of introducing 'possible proposals for additional new own resources' in the course of 2021-2027, such as a 'digital or aviation levy, a carbon border adjustment mechanism or a financial transaction tax'. Following the European Council, the Commission President von der Leyen reported that many Member States were in favour of introducing new forms of own resources, but needed to agree on the type of new own resources that could be used at European level.

3. Messages of the President of the European Parliament

When addressing the Special European Council at the start of its meeting, the President of the European Parliament, David Sassoli, reiterated Parliament's dissatisfaction with the current proposal. President Sassoli underlined that the amount that the European Parliament was asking for was a 'calculation based on the needs of the Union, on the commitments made by the new Commission and by the strategic agenda of the Council'. He emphasised that 'we must equip the Union with all the means necessary to address the challenges we have decided to face together'.

From the Parliament's point of view, one of the shortcomings of the current proposal is linked to the system of rebates. President Sassoli stressed that the proposal, which suggests fully maintaining existing rebates, 'represents a concession that contrasts with the principle of European solidarity' and Parliament 'opposes the perpetuation of this outdated system'. Another inadequacy of the current proposal concerns the conditionality mechanism, insofar as the EU needs to be 'capable of protecting the budget of the Union when the rule of law is not respected and a systematic violation of European values occurs'. While President Michel has taken on board the idea of a general regime of conditionality, this has been weakened in comparison to the Commission's proposal. Under Michel's proposal, a case of deficiencies in the good governance of Member State authorities as regards respect for the rule of law would, following a proposal by the Commission, require approval by qualified majority in the Council, while under the Commission's proposal it would have to be approved by the Council by reverse qualified majority (i.e. qualified majority would be needed to block the proposal, rather than to approve it).

President Sassoli expressed Parliament's appreciation of President Michel's efforts in seeking an agreement, notably with regards to his availability and to his discussions with Parliament. He thanked Michel 'for his efforts to equip the Just Transition Fund, although this needs to be further increased', as well as for the attention he has paid to the issue of own resources for the EU budget.

However, President Sassoli warned that the Parliament 'will not just accept any agreement. There is a very large majority ready to reject any proposal that does not take due account of Parliament's positions.

4. Next steps

Following the special European Council, Charles Michel indicated that EU Heads of State or Government needed more time. However, he was not able at that point in time to specify the exact working method that ought to be used to reach a 'political' agreement and to indicate a specific timeline. It is likely that another special European Council will have to be convened early in March – without waiting for the formal European Council meeting scheduled for 26-27 March 2020. Charles Michel should call this meeting following consultation with the Member States.

Past experience with MFF negotiations has shown that several dedicated European Council meetings have always been necessary to be able to reach an agreement between EU Heads of State or Government. Negotiations in the European Council (with the Commission proposal as the starting point) have already lasted over 21 months. Therefore, despite the European Council's original aim of speeding up these MFF negotiations, the current round of talks has already taken longer than the time that was necessary to find an agreement during the 2014-2020 MFF negotiations. Moreover, once EU Heads of State or Government have reached a political agreement between themselves, Parliament and Council will still have to negotiate the final agreement, which could take until September or October 2020 at the earliest, assuming the negotiations run according to a similar timetable to that of the 2014-2020 MFF.

Other items

Syria

What EU leaders did agree, in the margins of the Special MFF European Council meeting, was a declaration of the European Council on the situation in Idlib. In this declaration, they condemned the renewed military offensive by the Syrian regime and its backers, and called on all actors to cease hostilities immediately. They also urged all parties to the conflict to fully respect their obligations under international humanitarian law, to put a sustainable ceasefire in place, to fully implement their commitments under the Sochi Memorandum of 17 September 2018, and to find a credible political solution in line with the UN Security Council Resolution 2254 and the Geneva Communiqué.

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