

Outcome of the special European Council meeting of 17-21 July 2020

After almost five days of negotiations, the European Council finally reached a political agreement on the Multiannual Financial Framework (MFF) for 2021 to 2027 and a specific recovery instrument following the coronavirus crisis – Next Generation EU (NGEU) – together totalling €1 824.3 billion. Negotiations seem to have concentrated in particular on the balance between loans and grants for the provision of funding under the NGEU, with a final division of €360 and €390 billion respectively. Despite a significant reduction in the share of grants compared to the €500 billion proposed by the President of the European Council, Charles Michel, in his July 2020 ‘negotiating box’, the mere fact of issuing common debt at EU level represents a substantial step in European integration, expressing EU solidarity in facing the coronavirus crisis. Other notable developments concern the link between EU funding and respect for the rule of law, on which the final wording is more vague than that of earlier proposals. On other controversial issues, notably the size of the MFF, rebates and own resources, the outcome remains close to the negotiating box. Overall, however, the deal remains significantly below Parliament’s expectations. With a lower overall commitments ceiling of €1 074.3 billion, the MFF falls below both the 2014-2020 MFF and the 2020 budget levels. Moreover, significant cuts were made to a series of key programmes, such as Erasmus+ and Digital Europe, areas which the European Council had itself identified as a strategic priority in its 2019-2024 Strategic Agenda. Finally, the increase – rather than the proposed abolition – of the rebates for four countries, together with only a vague commitment to ‘work towards the reform of the system of own resources’, seems unlikely to meet the conditions set by Parliament for giving its consent to the long-term budget. Indeed, the political agreement within the European Council on the MFF and the Recovery Fund is not yet the final deal, but only the starting point for negotiations between Parliament and Council. Before the MFF can enter into force, the Parliament must give its consent, which is also a pre-condition for the adoption, by co-decision, of legislation on the new policy programmes.

1. Reaching a deal at the special European Council meeting

In his [invitation letter](#) to the special European Council meeting focused on the EU's long-term budget, Charles Michel announced that ‘finding agreement will require hard work and political will on the part of all’. It took almost five days and numerous [group](#), [bilateral](#) and [plenary](#) sessions to reach the political agreement, making this meeting of the European Council the second longest to date.

Altogether, starting from the publication of the original MFF proposal, the discussions on the 2021-2027 MFF within the European Council have taken 26 months – or even 29 months since EU leaders discussed the post-2020 long-term EU budget for the first time at their [informal meeting on 23 February 2018](#). By comparison, the [negotiations in the European Council on the 2014-2020 MFF](#) required only 20 months. The European Council thus took longer than all the scenarios outlined by its former President, Donald Tusk, for finding a political agreement on the long-term budget: (1) end of 2019/early 2020, (2) prior to May 2019, or (3) in the course of 2019.

Prior to the meeting, Charles Michel held video-conference discussions with every [member of the European Council](#) at least [once](#) or [twice](#), to [discuss](#) their positions following his circulation of a revised negotiating box on 10 July. In parallel, EU leaders also held many bi- and multilateral discussions amongst themselves. Table 1 gives a non-exhaustive,¹ but telling overview of the interactions (both phone calls and face-to-face meetings) between EU Heads of State or Government. It shows which EU leaders were most active – namely Giuseppe Conte, Mark Rutte, Angela Merkel and Pedro Sanchez – and also highlights positions considered as important for reaching agreement.

Bilateral and group meetings among Member States' leaders also continued during the European Council meeting itself, with for example a meeting of the Visegrad countries (Czechia, Hungary, Poland and Slovakia) to [coordinate](#) their position, and one of the [‘frugals’](#) (Austria, Denmark, Sweden and the Netherlands) as well as a Baltic [coordination meeting](#).

Table1: EU leaders’ interactions made public prior to the 17-21 July meeting

Member State	Leader	Contact with	No of contacts
Czechia	Andrej Babis	Giuseppe Conte , Igor Matovič , Mateusz Morawiecki and Viktor Orban	4
Denmark	Mette Frederiksen	Sebastian Kurz , Stefan Löfven , and Mark Rutte	3
Germany	Angela Merkel	Emmanuel Macron , Mark Rutte , Giuseppe Conte (twice), Pedro Sanchez , Sanna Marin , Mateusz Morawiecki	7
Estonia	Juri Ratas	Gitanas Nausėda	1
Ireland	Micheál Martin	Gitanas Nausėda , Mark Rutte	2
Greece	Kyriakos Mitsotakis	Nicos Anastasiades	1
Spain	Pedro Sanchez	Antonio Costa , Giuseppe Conte , Mark Rutte , Angela Merkel , Emmanuel Macron , Stefan Löfven , Gitanas Nausėda	7
France	Emmanuel Macron	Angela Merkel , Pedro Sanchez , Giuseppe Conte , Stefan Löfven	4
Croatia	Andrej Plenković	Gitanas Nausėda	1
Italy	Giuseppe Conte	Antonio Costa , Pedro Sanchez , Mark Rutte , Angela Merkel (twice), Emmanuel Macron , Sanna Marin , Sebastian Kurz , Viktor Orban and Andrej Babis	10
Cyprus	Nicos Anastasiades	Kyriakos Mitsotakis	1
Lithuania	Gitanas Nausėda	Andrej Plenkovic , Micheál Martin , Pedro Sanchez , Juri Ratas	4
Hungary	Viktor Orban	Mateusz Morawiecki (twice), Andrej Babis and Igor Matovič , Antonio Costa , Giuseppe Conte	6
The Netherlands	Mark Rutte	Angela Merkel , Giuseppe Conte , Pedro Sanchez , Antonio Costa , Micheál Martin , Sebastian Kurz , Stefan Löfven and Mette Frederiksen	9
Austria	Sebastian Kurz	Stefan Löfven , Mette Frederiksen and Mark Rutte , Igor Matovič , Giuseppe Conte	5
Poland	Mateusz Morawiecki	Angela Merkel , Viktor Orban (twice) Andrej Babis and Igor Matovič	5

Portugal	Antonio Costa	Pedro Sanchez , Giuseppe Conte , Mark Rutte , Viktor Orban	4
Slovakia	Igor Matovič	Sebastian Kurz , Mateusz Morawiecki , Viktor Orban and Andrej Babis	4
Finland	Sanna Marin	Angela Merkel , Giuseppe Conte	2
Sweden	Stefan Löfven	Emmanuel Macron , Mette Frederiksen , Mark Rutte and Sebastian Kurz , Pedro Sanchez	5

Source: EPRS.

2. The political agreement

The political agreement set out over 68 pages of the European Council [conclusions](#) defines the MFF ceilings and the financial envelopes for all policy sectors for the seven-year MFF period. As was the case for the 2014-2020 MFF, when 48 pages of [conclusions](#) detailed the substance of the MFF headings, thus also including elements formally due to be agreed jointly between Parliament and Council (such as programme governance, objectives and sub-envelopes), the current conclusions testify once again to the European Council's far-reaching involvement in areas of co-decision. Following the 2014-2020 MFF negotiations, the European Parliament [identified](#) the impact of the European Council's involvement in the Parliament's legislative prerogatives as a matter of particular concern.

Main elements

During previous European Council meetings in 2020 and during the final weeks of negotiations, the most controversial issues were: i) the size of the MFF, ii) the existence and size of rebates, iii) the size of the recovery fund, iv) the balance between grants and loans, v) the allocation criteria for funding, and vi) the governance of the recovery fund, and the role of the various institutions as well as national reforms. The political agreement reached the following compromises on these issues (see also the overview provided in table 3).

- The overall size of the MFF amounts to €1.074 trillion, which is below both the 2014-2020 MFF and the 2020 budget levels, thus following the position of the 'frugals'.
- The existence and size of rebates: The political agreement not only maintains existing rebates or 'budget correction mechanisms as lump sums' for Austria, Germany, Denmark, the Netherlands and Sweden, but in four cases, even increased their amount: Austria (€565 million), Denmark (€322 million), The Netherlands (€1 921 million) and Sweden (€1069 million). The German rebate remains at the same level (€3 671 million).
- The size of the recovery fund remained at a total of €750 billion as proposed by the European Commission.
- The balance between grants and loans has evolved towards an almost equal balance of €390 billion in grants and €360 billion in loans. This is the most apparent development compared to Charles Michel's negotiating box (€500 billion in grants) and received the most attention during the European Council meeting. It should however be emphasised that, beyond difficult negotiations on the share of grants and a substantial reduction in their amount, the mere fact of issuing common debt at EU level is a historic step in European integration and a clear expression of solidarity following the coronavirus crisis.
- The allocation criteria for funding: As indicated in Charles Michel's negotiating box, the political agreement envisages that 70 % of the grants of the RFF will be committed in 2021 and 2022, according to the Commission's allocation criteria taking into account Member States' respective living standards, size and unemployment levels. The remaining 30 %

will be committed in 2023, where the current unemployment criterion will be replaced by one based on the drop in GDP in 2020 and 2021.

- Governance of the Recovery fund: Based on the Commission's country-specific recommendations, Member States will be required to prepare national recovery and resilience plans for 2021-23, in line with the European Semester. The plans will be reviewed in 2022. The assessment of these plans will be approved by the Council by qualified majority vote (QMV), on a proposal by the Commission – and not by unanimity as was suggested in the course of the negotiations and heavily debated.

The disbursement of grants will take place only if the agreed milestones and targets set out in the recovery and resilience plans are fulfilled. If, exceptionally, one or more Member States consider that there are serious deviations from the satisfactory fulfillment of the targets, they may request that the matter be referred to the next European Council meeting.

Another change from Charles Michel's negotiating box concerns rule of law conditionality. Albeit with a vaguer formulation than proposed, the principle of 'rule of law' conditionality has been accepted. The political agreement states that 'a general regime of conditionality will be introduced to tackle manifest generalised deficiencies in the good governance of Member State authorities as regards respect for the rule of law when necessary to protect the sound implementation of the EU budget, including NGEU, and the financial interests of the Union'.

Incidentally, the revised negotiating box also introduced a new €5 billion 'Brexit reserve', which will be established to support those Member States and economic sectors hardest hit by Brexit. This proposal was endorsed with the rest of the package.

Member States' positions

While the agreement reached in the European Council is a compromise for which every Member State had to drop some of its 'red lines', for some Member States it is possible to identify the issues from their original strategy which prevailed in the course of the negotiations, and on which points those Member States had to give ground in order to get their way on their highest priority. An example among the 'frugals', for instance is the Netherlands, which managed to ensure itself a higher rebate, but had to give in on reverse QMV in the area of the rule of law and to accept the principle of grants.

Table 2: Main priorities of certain Member States, as indicated by EU leaders on 17 July

Member State	Position going into the special European Council meeting	Negotiation position achieved
Austria	Smaller MFF, and higher Austrian rebate, modern policies (green and digital), reforms, supports new own resources	Smaller MFF, higher Austrian rebate
Finland	Prioritising strong rule of law conditionality, a lower overall level of funding and smaller amount of grants	Smaller amount of grants
Bulgaria	Importance of traditional policies (CAP and cohesion policy)	Cohesion policy remains an important element
The Netherlands	Maintaining and increasing rebates, 'does not believe in grants', southern Member States need to commit to reforms, rule of law needs reverse QMV	Maintaining and increasing rebates

Ireland	Importance of CAP funding and Green Deal	
Belgium	Very satisfied with Michel's proposal	
Estonia	CAP is important, direct payments	
Lithuania	Cohesion and other traditional policies are important, recovery fund should not come at the cost of the MFF, direct payments	Cohesion policy remains an important element
Romania	Romania will prioritise substantial funding for cohesion and agriculture policies, as well as a strong recovery package to support sustainable economic recovery	Cohesion policy remains an important element Strong recovery package

Source: EPRS.

Comparing the positions of the different EU institutions

When comparing the positions of the different EU institutions and the final agreement, it can be observed that the final agreement stayed closest to Charles Michel's negotiating box of 20 July. The main differences relate to the balance between grants and loans within the Recovery and Resilience Facility (RFF), which shifted from a mix of €500 billion in grants and €250 billion in loans to €390 billion in grants and €360 billion in loans as a result of the position of the frugal four (see Table 3).

At the start of the European Council meeting, the President of the European Parliament, David Sassoli, [outlined](#) once again the Parliament's main priorities to EU Heads of State or Government. He underlined in particular that Parliament expected 'the introduction of a package of own resources with a commitment that they enter into force as soon as possible, and by 2023 at the latest'. As [stressed](#) by the EP negotiators on the MFF package, in a joint position following the political agreement in the European Council, 'new genuine own resources are the solution to repay the common debt, but the plastic-based contribution will not do the trick alone! We recall our strict demand to that respect: a binding commitment for the introduction of additional own resources as soon as 2021, and still in the course of the MFF 2021-2027'.

Parliament also believes that 'the time has come to eliminate the rebates that some Member States receive, which are unfair and difficult to justify'. Yet, instead of being abolished, [rebates](#) will be kept, and even [increased for four countries](#), Austria, Denmark, Sweden and the Netherlands. The EP President also put strong emphasis on 'adequate democratic control over allocation of resources and the approval of national recovery plans'. As also [underlined](#) by the EP negotiators, 'democratic oversight must be substantially increased: Parliament, as one arm of the budgetary authority will fight to be fully involved in the establishment and implementation of the Recovery Instrument'.

Table 3: Positions and results on the main topics of the MFF and recovery fund negotiations

Main topics	Commission 2020 proposal	EP position ²	Negotiating box 10 July 2020	Conclusions 18 July 2020	Position prevailing
MFF	€1.1 trillion	€1.324 trillion	€1.074 trillion	€1.074 trillion	Negotiating box
NGEU	€750 billion	€2 trillion	€750 billion	€750 billion	European Commission
Rebates	Phase out the current rebates over time	Abolition of all rebates and corrections	Continuation of the rebates	Annual rebates for Austria (€565 million), Germany (€3 671 million), Denmark (€322 million), the Netherlands (€1 921 million) and Sweden (€1 069 million)	Negotiating box and rebate beneficiaries
Grants and loans	€500 billion in grants; €250 billion in loans	€500 billion in grants is the bare minimum	€500 billion in grants €250 billion in loans	€390 billion in grants €360 billion in loans	Frugals
Allocation criteria for funding for RFF	Unemployment 2015-2019; Inverse GDP per capita; Population share	N/A	70 % in 2021-2022 based on unemployment 2015-2019; Inverse GDP per capita; Population share. 30 % in 2023 based on overall drop in GDP in 2020 and 2021, observed in 2022; Inverse GDP per capita; Population share.	70 % of RFF grants will be committed in 2021 and 2022, according to the Commission's allocation criteria, taking into account Member States' respective living standards, size and unemployment levels. 30 % will be committed in 2023, with the unemployment criterion be replaced by one based on the drop in GDP in 2020 and 2021	Negotiating box
Recovery fund, governance	Proposal for a regulation on the protection of the EU budget against generalised deficiencies in the rule of law	Member States that do not respect EU values shall be subject to financial consequences	Reform and Resilience National Plans adopted by the Council with QMV; Rule of law conditionality adopted by the Council with QMV; earmark 30 % of funding for climate-related projects	Negotiation box approach + in case of serious deviations, one or more Member States may request that the President of the European Council refers the matter to the next European Council	Negotiating box and the Netherlands
Own resources	New own resources of some kind at a later stage (2021-27).	Parliament would only give its consent to the next MFF if a basket of new own resources were to be introduced	Four-phase approach 1. Plastic-waste based levy – 1 January 2021 2. Border carbon adjustment mechanism and digital levy – by 1 January 2023 3. Emission trading system (ETS) (possible extension to aviation and maritime) 4. Work on introducing other new own resources	A new plastic levy in 2021. A carbon adjustment measure and a digital levy, both of which would be introduced by the end of 2022. Then the Commission will revise the proposal for the EU ETS. Other new resources might be a financial transaction tax. The gains from these new own resources will be used for early repayment of NGEU borrowing.	Negotiating box with small changes

Source: EPRS.

Policy priorities and cuts to EU programmes

In its [2019-24 Strategic Agenda](#), the European Council set out the EU's political priorities for the next five years, organised around four headings: protecting citizens and freedoms; developing a strong and vibrant economic base; building a climate-neutral, green, fair and social Europe; promoting European interests and values on the global stage. However, in the political agreement of the EU Heads of State or Government, some policy areas do not receive the attention and funding to match the degree of priority attached to them in their own long-term objectives. This is the case, for instance, with the Digital Europe programme, for which funding has been cut. Charles Michel explicitly rejected a reinstatement put forward by the Commission in its May 2020 revised MFF proposal; thus funding in this area may be insufficient to meet the EU's stated ambition of achieving 'digital sovereignty'. Concerning policy priorities, President Sassoli [reiterated](#) Parliament's support for an MFF with a sufficient level of funding for convergence policies and the appropriate resources needed to meet the fundamental priorities: the Green Deal, digitalisation and resilience.

The political agreement envisages cuts, in comparison to Charles Michel's first negotiating box, in the additional budgetary funding under NGEU for many long-term EU policy programmes. To name just a few examples, Horizon Europe's allocation shrinks from €13.5 billion to €5 billion; that for the InvestEU programme is being reduced from €30.3 billion to €5.6 billion, the rural development programme will now receive an allocation of €7.5 billion compared to €15 billion; the Just Transition Fund €10 billion reduced from €30 billion to; and the NDICI was cut from the NGEU completely. Only the React-EU budget increase for cohesion policy remains substantial, at €47.5 billion, compared to €50 billion at the outset.

Likewise, a total envelop of €8.5 billion was agreed for defence related projects – the European Defence Fund (EDF) and military mobility, which represents 50 % [less](#) than the initial proposal made by the European Commission in 2018 (€17.22 billion). In a joint letter, the High Representative, Josep Borrell, and Commissioner Thierry Breton, [warned](#) that low funding for defence would jeopardise the EU's capacity to meet its self-set [level of ambition](#). The European Parliament in a [January 2020 resolution](#) supported the initial amount proposed by the European Commission in 2018.

For a detailed comparison of the proposals of the different EU actors (i.e. Parliament, Commission and the European Council President) by policy area (i.e. by heading and selected programmes) see EPRS briefing on [Negotiations on the next MFF and the EU recovery instrument](#).

Next steps

The political agreement reached at the level of the European Council on 21 July does not however conclude the process for the adoption of the EU's long-term budget for the years 2021 to 2027.³ It is only the starting point for negotiations between the two arms of the budgetary authority, Parliament and Council. Indeed, according to [Article 312 TFEU](#), the regulation laying down the MFF is adopted by the Council acting by unanimity, after obtaining the consent of the European Parliament.⁴

As outlined above, the political agreement falls short on many of Parliament's main objectives (see table 2). Whilst EP President David Sassoli welcomed 'the unprecedented agreement between governments to revive the European economy', he also stressed that Parliament would now work to improve these instruments, in particular aiming at a more ambitious MFF and more clarity on new own resources. Striking the same note, the Parliament's [negotiating team on the MFF and Own Resources](#) welcomed the creation of the NGEU, but indicated [that](#) 'Parliament cannot accept the proposed record low ceilings as they mean renouncing the EU's long-term objectives and strategic autonomy'. What is needed now is 'more European solidarity, more European action in public health, in research and digitalisation, youth, and in the historical fight against climate change'.

Intense negotiations between Parliament and Council are therefore to be expected. While the total amount may not be the main issue of contention, Parliament will seek to gain concessions on issues such as the introduction of a mid term review of the MFF, an increase in funding for its priority policy

areas, as had been the case during the 2014-2020 MFF negotiations (for example with Erasmus). Parliament's negotiating team has already indicated that it 'will strive to secure improvements, including higher amounts, on future-oriented MFF programmes like Horizon, InvestEU, LIFE, Erasmus+.' Some political group leaders have also already stressed that they would [seek](#) 'changes on MFF, rule of law and own resources'.

The Parliament will [debate](#) the results of the European Council in plenary on 23 July, preceded by a meeting of Parliament's political group leaders on 22 July. President Sassoli has already emphasised that 'Parliament will only give its consent to the MFF if it meets [Parliament's] priorities'.

Other topics

Greece and Cyprus raised the question of Turkey's drilling activities in the eastern Mediterranean, [stressing](#) that the EU 'should respond collectively and decisively in concrete terms' and [asked](#) for 'tough sanctions'. The Prime Minister of Greece, Kyriakos Mitsotakis, also raised the issue of the [conversion](#) of Hagia Sophia into a mosque.

In a joint statement, France, Germany and Italy [expressed](#) concern at the escalating military situation in Libya, called for a cease-fire, and warned the different [actors](#) involved of possible sanctions.

ENDNOTES

- ¹ Data collected based on information available on government webpages and Twitter accounts.
- ² The Parliament position is comprised of different resolutions and the joint letter of EP group leaders.
- ³ During the negotiations on the 2014-20 MFF, EU leaders needed to come back to the topic once more in June 2013, although they had actually reached agreement in February 2013.
- ⁴ With the entry into force of the Treaty of Lisbon, as provided in Article 312(2) TFEU, the MFF is laid down in a regulation adopted by the Council, acting by unanimity in accordance with a special legislative procedure, after obtaining the consent of the European Parliament.

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