

EXPLANATORY STATEMENT

On 10 November 2020, Parliament's negotiating team on the multiannual financial framework (MFF) and own resources (OR)¹ reached an overall political compromise with the Council Presidency, and with the Commission for the relevant parts.

As a result of this compromise, the Council is referring to Parliament a **draft Council Regulation laying down the multiannual financial framework for the years 2021 to 2027**, that the MFF Co-Rapporteurs recommend consenting to.

The political compromise covers not only the 2021-2027 MFF, but also the future system of own resources and flanking measures for the new EU Recovery Instrument (Next Generation EU). In addition to the MFF Regulation, the compromise is reflected in:

- an **Interinstitutional agreement (IIA)** between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap for the introduction of new own resources (submitted to Parliament's approval separately from the present recommendation);
- a set of **joint declarations** by the European Parliament, the Council and the Commission (annexed to the present recommendation).

Prior to this political compromise, Parliament already:

- cleared the way for a swift adoption and ratification of the **Own Resources Decision** and, thereby, the launch of the EU's Recovery Instrument by providing, on 16 September 2020, its compulsory legislative opinion to the new draft Council decision on the system of own resources of the European Union ('Own Resources decision'), which authorises the borrowing of funds under the Next Generation EU scheme;
- reached, on 5 November 2020, a provisional agreement on a **general regime of conditionality for the protection of the Union budget** (endorsed by the Committees on Budgets and on Budgetary Control on 12 November 2020 and by the Coreper on 16 November 2020, and submitted to Parliament's adoption under the ordinary legislative procedure).

Subject to its approval, this political compromise facilitates the conclusion - but does not prejudge the outcome - of the ongoing **sectoral negotiations** on the new generation of MFF expenditure programmes that are adopted under the ordinary legislative procedure.

1. Results of negotiations between the European Parliament and the Council

The political compromise sets the **overall ceiling** for the 2021-2027 MFF at EUR 1 074.3 billion in 2018 prices, to be progressively increased to EUR 1 085,3 billion.² The MFF will be supplemented by a **Recovery Instrument** of EUR 750 billion (including EUR 390 billion of

¹ Johan Van Overtveldt, Chair; Jan Olbrycht and Margarida Marques, MFF Co-Rapporteurs; Jose Manuel Fernandes and Valérie Hayer, Own Resources Co-Rapporteurs; Rasmus Andresen, Member.

² The final 2021-2027 ceilings (notwithstanding future revisions) will therefore exceed in real terms the 2014-2020 overall ceiling, which was estimated by the Commission at EUR 1 083,3 billion in 2018 prices after deducting UK expenditure and adding the relevant amounts from the European Development Fund.

grants or direct budget expenditure). The financing of the new MFF and Recovery Instrument/NGEU is to be made possible by a new Own Resources decision which authorises the Commission to start with the borrowing operations to finance the Recovery Instrument/NGEU and temporarily increases by a further 0.6 percentage points the Own Resources ceiling for payments to cover the new borrowing capacity of the Union.

Despite delays on the part of the Council/European Council and sub-optimal interinstitutional cooperation, the European Parliament actively contributed to the package endorsed by Heads of States and Governments at the summit of 17-21 July 2020 on the basis of Commission proposals of May 2018 and May 2020. Parliament welcomed the historic creation of the Recovery Instrument/NGEU. It however regretted unjustified cuts to future-oriented programmes, insufficient commitment towards the creation of new own resources (to cover at least the costs of the recovery debt), insufficient involvement of the EP in the decision making on and governance of the Recovery Instrument, as well as a weakened rule of law mechanism.

During strenuous negotiations between Parliament, Council and the Commission from 27 August to 10 November 2020, Parliament's negotiators **secured significant improvements** on top of the European Council conclusions of 21 July 2020. A provisional agreement was also found on 5 November on the rule of law mechanism.

Positive steps - whether already reflected in the Council's position of July 2020 or achieved afterwards - are summed up in the following table.

EP key requests	Results
<p>MFF figures: Reinforcements of flagship programmes</p>	<p><u>Positive steps in Council's position:</u> The overall level of the MFF is set at EUR 1 074,3 billion in 2018 prices, i.e. below Parliament's initial requests. However, when counting the significant grant component of the Recovery Instrument/NGEU (of which Parliament was a vocal proponent both before and after the Commission's recovery proposals), it is increased to an unprecedented level of EUR 1 464,3 billion.</p> <p>In conjunction with NGEU (and boosted spending via the Recovery and Resilience Facility), the MFF secures overall levels of funding for agriculture and cohesion of a size that is comparable to 2014-2020, as well as modest increases for most other existing and new programmes compared to 2014-2020. In the course of the Council proceedings, Parliament notably obtained the creation of the Just Transition Fund.</p> <p>Yet, the European Council significantly cut centrally managed programmes as well as part of the NGEU grants that were proposed to top-up EU flagship programmes (next to the Recovery and Resilience Facility) in order to address the economic effects of the crisis. Consequently, several of those programmes were downsized to a level that was lower than in the original Commission proposal, or the intended reinforcements were discarded altogether.</p> <p><u>Improvements to Council's position:</u> As part of the political compromise of 10 November 2020, Parliament obtains reinforcements of EUR 16 billion (2018 prices) to reinforce the</p>

endowment of expenditure programmes and flexibility mechanisms on top of the European Council figures. This is the first time that the Parliament manages to secure increases to ceilings and financial allocations of EU programmes, as proposed by the European Council.

EUR 15 billion of top-ups go to flagship programmes/areas:

- Horizon Europe: +4 billion;
- InvestEU: +1 billion;
- Erasmus+: + 2.2 billion;
- EU4Health: + 3.4 billion;
- Creative Europe: + 0.6 billion;
- Rights and Values programme: + 0.8 billion;
- Border Management Fund & Border and Coast Guards: + 1.5 billion;
- NDICI: + 1 billion;
- Humanitarian aid: +0.5 billion.

For future unforeseen needs, **a further EUR 1 billion goes to the Flexibility instrument** (whose rules of mobilisation, moreover, have been eased compared to Council's position). Parliament has also protected and increased the external strand of the new Solidarity and Emergency Aid Reserve.

The main source for the increases (EUR 11 billion) will come from a new mechanism linked to the proceeds from fines collected by the Union and will result in automatic additional allocations to the concerned programmes in 2022-2027. This mechanism will also result in a **genuine increase of the MFF ceilings** on a yearly basis. The seven-year MFF overall ceiling will therefore incrementally reach EUR 1 085,3 billion in 2018 prices, i.e. EUR 2 billion higher in real terms than the equivalent MFF 2014-2020 ceiling (EUR 1 083,3 billion in 2018 prices without UK, with EDF).

Further top-ups (EUR 2.5 billion) come from margins left unallocated within the ceilings set by the European Council. EUR 1 billion comes from reflows from the ACP Investment Facility (European Development Fund) to the benefit of NDICI. EUR 0.5 bn come from decommitted appropriations in the area of research to the benefit of Horizon Europe (Article 15(3) of the Financial Regulation).

Costs of repayments and interests of recovery debt are included in the MFF ceilings for the 2021-2027 period, but Parliament has secured an agreement that this treatment is without prejudice to how this matter will be addressed in future MFFs from 2028 onwards, and that such expenditures shall aim at not reducing EU programmes and funds.

Commission takes a unilateral commitment to present a review of the functioning of the MFF by 1 January 2024, and, as appropriate, proposals for a revision.

<p>Introduction of new own resources</p>	<p><u>Positive steps in Council’s position:</u> The new Own Resources Decision (ORD) will create a borrowing capacity for the Union by providing for a significant increase of the Own Resources ceiling.</p> <p>At the strong request of Parliament, and in line with its long-standing position, a new own resource is formally endorsed by the European Council in the form of the new contribution based on the weight of non-recycled plastic packaging waste (‘plastic contribution’), thus breaking a stalemate of more than 30 years. This constitutes a first step in fulfilling Parliament’s request for the introduction of a basket of new own resources. Moreover, a simplified VAT-based own resource is approved, which is expected to significantly improve the operation of the system. Parliament regrets, however, the continuation and increase of rebates and retention costs for collecting custom duties.</p> <p><u>Improvements to Council’s position:</u> During the negotiations, Parliament focuses its efforts on securing a roadmap for the introduction of new own resources in the course of the next MFF. The institutions eventually agree on the following:</p> <ul style="list-style-type: none"> - The roadmap is enshrined in the IIA, which establishes a cooperation and provides for arrangements that are binding on the three institutions, including the launch of a regular dialogue; - It endorses the principle that interest costs and repayments of NGEU are to be covered by the proceeds from new own resources; - First step (2021): a plastic contribution is introduced in January 2021, new legislative proposals on a carbon border adjustment mechanism, digital levy and ETS will be submitted by June; - Second step (2022 and 2023): Council will deliberate on these new own resources by 1 July 2022 at the latest in view of their introduction by 1 January 2023; - Third step (2024-2026): by June 2024, Commission will put forward a proposal for additional new own resources, which could include a Financial Transaction Tax and a financial contribution linked to the corporate sector or a new common corporate tax base. Council will deliberate on these new own resources by 1 July 2025 at the latest in view of their introduction by 1 January 2026.
<p>Role of the European Parliament as one arm of the budgetary authority</p>	<p><u>Positive steps in Council’s position:</u> In the MFF, Council supports the integration of the European Development Fund in the Union budget, a long-standing request by Parliament to ensure its own role and oversight and reinforce the unity of the EU budget.</p> <p>In respect of the NGEU, while most other contributions first hinted at intergovernmental mechanisms, Parliament was the main proponent of anchoring the Recovery Instrument in the Union framework, as was proposed by the Commission and agreed by the Council.</p>

	<p>However, NGEU is set up with a legal basis that excludes Parliament from the legislative decision making procedure (Art. 122 TFEU), and gives rise to funds that enter the budget in the form of external assigned revenues that bypass the normal budgetary procedure.</p> <p><u>Improvements to Council’s position:</u> As regards the setting-up of future crisis mechanisms based on Article 122 TFEU with potential appreciable budgetary implications, Parliament obtains the creation of a new procedural step (the ‘budgetary scrutiny procedure’). A joint committee will be convened, where Council and Parliament will engage in a constructive dialogue and seek a joint understanding of the budgetary implications before Council proceeds with adoption.</p> <p>As regards NGEU per se, Parliament secures the inclusion of a new section in the IIA which enhances the budgetary authority’s involvement in the use of NGEU external assigned revenue (detailed information and updates, regular interinstitutional meetings, adoption of an Annex to the annual budget, procedure to address deviations).</p> <p>Parliament also secures an agreement to assess more structurally the provisions on external assigned revenue and reporting on borrowing and lending in the next revision of the Financial Regulation.</p> <p>Finally, in the light of the sub-optimal experience of the MFF negotiation process, Parliament secures a new provision in the IIA whereby institutions will seek to define specific arrangements for cooperation and dialogue in future MFF negotiations.</p>
Horizontal issues	<p><u>Positive steps in Council’s position:</u> With Parliament’s support, the Council increases the overall target of expenditure supporting climate objectives from 25% (proposed by the Commission) to at least 30% of MFF/NGEU expenditure.</p> <p><u>Improvements to Council’s position:</u> In the IIA, Parliament secures an enhanced climate tracking methodology with a stronger role for Parliament and Council, and remedial measures to reach the overall climate target of at least 30%.</p> <p>Parliament obtains the addition of a new annual biodiversity target of 7.5% in the MFF from 2024, in view of reaching 10% in 2026 and 2027. The methodology is to be designed in close cooperation with Parliament and Council.</p> <p>Parliament also secures the design of a methodology to measure gender expenditure, to be implemented from 2023 at the latest for several centrally managed programmes in view of its extension in the second half of the MFF.</p>

	<p>In order to better protect the EU budget including NGEU expenditure and to improve budgetary supervision, control and audit, the institutions agreed to reform the collection, the quality and comparability of data on beneficiaries so that information is available in a timely, integrated, comparable and centrally accessible format and so that it covers not only the immediate recipients but also the beneficial owners of the recipients of funding.</p>
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2. Timeline

- **14 March 2018:** Parliament is the first institution to set out its position on the MFF 2021-2027 and Own resources in two non-legislative resolutions³ with the aim of influencing the Commission proposals. It states that it will not provide its consent on the MFF without sufficient progress on the own resources.
- **2 May 2018:** The Commission publishes its proposals on the MFF and the own resources on 2 May 2018, proposing an MFF at EUR 1 134,6 billion in 2018 prices in commitments. It also puts forward a draft Regulation on the protection of the Union budget (‘Rule of law mechanism’) and, in the following weeks, tables proposals for the basic acts of the 37 sectoral programmes. Commission sets the objective of reaching an agreement before the European elections of May 2019. Parliament adopts a short resolution in response to the Commission proposals on 30 May 2018.
- **May 2018 (until July 2020):** Start of exchanges of views between the negotiating team and successive Council presidencies before and after General Affairs Council (GAC) meeting where the MFF is on the agenda (“GAC briefings/debriefings”). Parliament describes them as short and formalistic. The negotiating team will be invited twice to informal meetings with GAC Ministers on 12 March 2019 (in Bucharest) and on 19 November 2019 (in Brussels).⁴
- **14 November 2018:** Parliament adopts an interim report⁵ constituting its detailed negotiating mandate, containing in particular:
 - detailed figures for all MFF ceilings and special instruments, broken down per programme within a ceiling of EUR 1 324,1 billion;
 - specific amendments to the Commission’s draft MFF Regulation, as well as the draft Interinstitutional agreement.

Parliament requests stepping up regular meetings with Council to pave the way for official negotiations, aiming at reaching a good agreement prior to the 2019 European Parliament elections.
- **December 2018:** First partial negotiating box submitted to the General Affairs

³ Texts adopted, P8_TA(2018)0075 and P8_TA(2018)0076.

⁴ Not counting bilateral meetings with Ministers, Ambassadors, Commissioners and stakeholders throughout the period.

⁵ Texts adopted, P8_TA(2018)0449.

Council.⁶ Parliament's negotiating team starts the practice of circulating to Council and within Parliament annotated versions of the negotiating boxes prepared in collaboration with the rapporteurs for the sectoral programmes in order to foster information and exchanges about Parliament's views. The European Council rules out the option of a deal before the elections.

- **November 2018-April 2019:** Parliament adopts negotiating mandates for the rule of law mechanism and almost all expenditure programmes. Parliament accepts to conclude some partial agreements with Council based on the latter's partial negotiating mandates (sectoral provisions affected by the negotiating box remain bracketed).
- **10 October 2019:** Following the European elections, Parliament confirms and updates its negotiating mandate and calls on the Commission to formally reflect in its initial MFF proposal the impact of the commitments taken by its new President⁷. Due to Council's delays, Parliament asks for a contingency plan should an agreement not be reached in time.
- **December 2019:** First negotiating box with figures submitted to the General Affairs Council. On top of its annotated versions of the negotiating box, Parliament's negotiating team starts the practice of circulating comparative analyses of every new set of figures put forward by the other institutions.
- **20-21 February 2020:** The special European Council meeting is inconclusive. On the basis of Article 225 TFEU, Parliament subsequently prepares a formal request for a contingency plan to the Commission⁸.
- **April and May 2020:** Due to the health and economic consequences of the COVID-19 pandemic, Parliament calls on the Commission, in two resolutions⁹, to propose a massive recovery and reconstruction package financed by common borrowing guaranteed by the Union budget, with a significant grant component.
- **27 May 2020:** The Commission puts forward a Recovery plan that includes revised proposals for the MFF and the Own resources, new proposals for the setting up of a Recovery Instrument / Next Generation EU of EUR 750 billion financed by borrowing on financial markets, and new or revised sectoral proposals.
- **8 July 2020:** First high-level meeting of the Presidents of the institutions set out in Article 324 TFEU "to promote consultation and the reconciliation of the positions".¹⁰

⁶ "Negotiating boxes" are an internal document aimed at coordinating Council positions on the most political aspects of several legislative texts while leading, ultimately, to detailed European Council conclusions. As Parliament pointed out, they tend to confer a predominant role on the European Council, including for a significant number of sectoral provisions to be decided under the ordinary legislative procedure. They prevent Council from adopting full negotiating mandates until late in the process and, when turned into European Council conclusions, highly constrain the room for manoeuvre of Council negotiators.

⁷ Texts adopted, P9_TA(2019)0032

⁸ Texts adopted, P9_TA(2020)0065

⁹ Texts adopted, P9_TA(2020)0054 and P9_TA(2020)0124

¹⁰ Not counting EP President's appearances before the European Council as well as informal bilateral meetings

- **17-21 July 2020:** The European Council reaches political agreement on an MFF at EUR 1 074,3 billion in 2018 prices and a Recovery Instrument of EUR 750 billion, including EUR 390 billion of grants. This makes it possible for the Council to adopt full positions and negotiating mandates on the whole package of proposals.
- **23 July 2020:** Parliament adopts a resolution¹¹ setting out Parliament’s assessment of the European Council conclusions and identifying the main elements for the upcoming negotiations.
- **27 August 2020:** Negotiations start in the form of “trilateral dialogue” meetings between Parliament’s negotiating team, the Permanent Representative of Germany (holding the Council Presidency) and the Commissioner responsible for Budget. They are prepared and followed up by numerous trilateral meetings at technical level.
- **16 September 2020:** Without waiting for the outcome of negotiations, Parliament provides its compulsory opinion to the Own Resources Decision (ORD)¹² to clear the way for its adoption by Council and subsequent ratification in all Member States, in view of the swift launch of the Recovery Instrument.
- **30 September 2020:** Council adopts negotiating mandate on the rule of law mechanism. Negotiators will reach provisional agreement on 5 November 2020 (endorsed by the Committees on Budgets and on Budgetary Control on 12 November, and by Coreper on 16 November).
- **10 November 2020:** At the 12th “trilateral dialogue” meeting, MFF/OR negotiators reach a political agreement on the MFF, the own resources and the Recovery Instrument.

with other Presidents (some of them in the presence of the negotiating team).

¹¹ Texts adopted, P9_TA(2020)0206.

¹² Texts adopted, P9_TA(2020)0220.