

Analysis of the Multiannual Financial Framework (MFF) 2014-2020

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Executive Summary

On June 29 the European Commission put forward its proposal for the next Multiannual Financial Framework (MFF), which sets out the overall amounts of resources the Commission suggests that the European Union should devote to its strategic priorities. The negotiations will put the European Union and its institutions up for a major challenge: finding an agreement, given that the Treaty of Lisbon has introduced major changes which are likely to impact on the process of negotiations, in particular with regard to the relative increased powers of the European Parliament (EP).

This paper analyses and compares the proposals issued by the European Commission with the opinion of the Committee of the Regions (CoR) on ‘The EU Budget Review’, in order to find differences but also agreement to be exploited during the negotiations. In order to analyse the position of the CoR, the paper also takes into account its previous opinions. In addition, the paper discusses the position of the European Parliament, which appears to be corresponding closely to the main features of the Commission’s propositions.

The implications of the changes proposed to Cohesion Policy are highly significant for the CoR, as they are likely to alter the implementation of regional policy through a concentration of objectives and the introduction of strong *ex ante* and *ex post* conditionality. The proposal of the Commission allocates a prominent role to Cohesion policy in achieving the objectives of Europe 2020, which is to be operationalised via the ‘Partnership Contracts’. Given the vagueness on content and methods of such contracts as well as their focus on the Member State level there is a need for clarification; there is a significant risk that regional policy might be constrained by a top-down approach, giving few opportunities to develop local/regional objectives and achieving buy-in with regional partners. More concrete proposals from the Commission are needed before the negotiation position of the CoR can be finalised. However, the political message of the CoR should underline the importance of clarification and the risks associated with a top-down approach.

With regard to a number of innovative features in the Commission proposals, there is a high probability that some are watered down during the negotiations, given the stated positions of some of the other actors. Here, the CoR can play an important role in ensuring that the original proposal does not lose those original measures, such as protecting the total amount of resources for the EU budget

(1% GNI in payments), investment in pan-European infrastructure and the enhanced environmental criteria for direct payments in CAP.

Within this context, the main policy messages of the CoR should focus on defending the proposals that have been most consistently demanded in its opinions:

- Creating a Common Strategic Framework including the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, and the Cohesion Fund;
- Creating a new category benefiting from structural funds, i.e. ‘transition regions’.

Secondly, the CoR needs, once again, to voice its opposition to any macroeconomic conditionality, which could imply a suspension of cohesion funding. Such a suspension could be the result of the changes to the EU economic governance, and in particular of the reform of the Stability and Growth Pact.

Introduction

'A budget for Europe 2020': taking up the challenges and dealing with an increasingly difficult context

Although relatively small in comparison to the budgets of the Member States, and amounting to just 1 percent of Europe's wealth, the EU budget is required to make a significant impact in order to adequately respond to the wide variety of political, social, environmental and economic challenges the EU faces, including the need to realise European solidarity, increase energy and resource efficiency, fight against climate change, counter the effects of the economic crisis and promote smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.

Exclusion from the labour market, inequalities and poverty rates are increasingly becoming the major challenges for European societies, as the financial crisis is unfolding. Social and economic disparities need to be tackled in order to not only ensure social cohesion but also to boost competitiveness. Furthermore, a competitive Europe needs better connections: if the Single Market is to function properly, significant investment in infrastructure in the sectors of transport, energy and information and communication technologies is needed.

The EU budget is one of the main instruments that the European Union has to tackle the challenges noted above, respond to the pressures of globalisation and reinforce Europe's voice on the global stage. However, the current economic and political climate risks undermining the potential role of the EU budget and its capacity to help European countries out of the crisis.

The negotiations which are set to intensify in the upcoming months, based on the proposals of the European Commission, will take place in the context characterised by a high status quo bias to avoid the risk of budget stalemate.ⁱ The reason for such a status quo bias is twofold:

- Firstly, the European Union's functioning is currently weakened by a lack of trust between Member States themselves and between Member States and EU institutions. In such a context, the idea of pooling resources becomes less appealing, as the underlying principles of solidarity, redistribution and mutual common interest are undermined by mistrust and fears of free riding.

- Secondly, the Eurozone crisis has increasingly fuelled this climate of mistrust, in addition to having led to austerity-driven budgetary policies in all European countries. Against this background, the European Union has been strongly pressurised by some national capitals to follow similar public finance rigour, ruling out any dramatic change to the size, structure and the main features of the EU budget.

In addition to the difficult political and economic context, the framework of the next MFF is made more complex by the inter-institutional implications stemming from the changes introduced in the Lisbon Treaty.

A new institutional set-up for MFF

The Multiannual Financial Framework was only introduced in 1987 to accompany the ‘Delors I’ package, as the European institutions decided that more long-term stability for EU finances was needed, also in order to avoid ongoing conflict between the EP and the Council over annual budgets. Its adoption procedures were not detailed in the Treaties at that time: previous to the Lisbon Treaty, MFFs were decided on the basis of an inter-institutional agreement. While the inter-institutional agreement was conceived to ensure a higher involvement of the European Parliament in the budgetary procedure, the EP had no formal say in deciding the structure of expenditures. This limitation was the result of hard bargaining among Member States, both with regard to the expenditure side (i.e. the Multiannual Financial Framework) and the revenue side (i.e. the ‘Own resources’ decision). In this process, the European Commission has also been progressively sidelined, as the difficult negotiations on the 2007-2013 MFF demonstrated, where discussions took place between Member States without clear reference to the Commission’s proposals.

The Treaty of Lisbon has changed the rules of the game substantially. The Multiannual Financial Framework is now included in the Treaty (Art. 312 TFUE), and the Council of Ministers needs to get the assent of the EP for the final decision. Although the assent procedure does not formally grant a power of amendment to the Parliament, it gives a significant chance to influence the debate by putting pressure on the Commission or even threatening the Council with a No vote in order to obtain changes.

The first annual budgetary procedure post-Lisbon (for the budget year 2011) has already demonstrated the potential for inter-institutional battles that this new system has created. Part of the deal struck in late December 2010 has been to fully involve the EP in the process of negotiations over the next MFF. The will of the Parliament to take an active part has also been demonstrated by setting up

a special committee dealing with the future EU budget (SURE committee), which has pre-empted the official MFF proposal with a resolution. As discussed later in this note, the Commission seems to have mostly taken into account the requests of the Parliament as expressed in its resolution.

The EP and Commission's similar positioning effectively sets the starting point for the negotiations, and it might have implications for the way in which Member States will develop their positions. The European Parliament is likely to make the next MFF negotiations much more of a public debate, which might reinforce its legitimacy and its capacity to influence the final deal.

At the same time, the Treaty of Lisbon has also made the challenge of funding an agreement even greater, as it explicitly foresees the option of no-agreement. This new provision establishes that "where no Council regulation determining a new financial framework has been adopted by the end of the previous financial framework, the ceilings and other provisions corresponding to the last year of that framework shall be extended until such time as that act is adopted" (Art. 312, (4)). This might be seen as constituting a safety net for some Member States which would rather live with this provision than ending up with what their population might perceive as a bad deal.

Against this backdrop, the Committee of the Regions shall aim at analysing what as from now are the possible synergies with the different EU institutions, in order to make its claims stronger and more effectively heard.

Part 1. General assessment of the European Commission's proposal

A. Analysis and comparison of the European Commission Proposals on the next Multiannual Financial Framework

The proposal put forward by the European Commission on June 29 is composed of several documents, part of which contain the legislative proposals that Member States will have to decide upon in the forthcoming months. The Communication 'A Budget for Europe 2020'(COM(2011) 500 final) is divided into two parts: the first one introduces the proposals, presents the headings' allocations and highlights the main changes in comparison with the previous MFF (2007-2013); the second part is composed of 'Policy Fiches', describing in greater detail the main innovations for each policy instrument.

In addition, the legislative package includes five different proposals which deal both with the expenditure and the revenue side:

EXPENDITURE	REVENUE (own resources)
<p>Proposal for a Council Regulation laying down the multiannual financial framework for the years 2014-2020 (COM(2011)398 Final)</p> <p><u>Legal basis:</u> Art. 312 TFEU <u>Procedure:</u> Council by unanimity and assent of the European Parliament. The Council Regulation replaces the previous Interinstitutional Agreement, which now only deals with residual aspects (see below).</p>	<p>Proposal for a Council Decision on the system of own resources of the European Union (COM(2011) 510 Final)</p> <p><u>Legal basis:</u> Art. 311 TFEU <u>Procedure:</u> Council by unanimity after consultation of the European Parliament. National constitutional requirements can impose further conditions before the decision can enter into force.</p>
<p>Proposal for an Interinstitutional Agreement between the European Parliament, the Council and the Commission on cooperation in budgetary matters and on sound financial management (COM(2011)403 Final)</p> <p><u>Legal basis:</u> Art. 295 TFEU This agreement deals with the budgetary procedures in general, and its first part contains provisions 'related to the special instruments not included in the financial framework' (i.e.</p>	<p>Proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union (COM(2011) 511 Final)</p> <p><u>Legal basis:</u> Art. 311 TFEU <u>Procedure:</u> Council by unanimity after assent of the European Parliament. This regulation is based on Art. 9 of the Council Decision on own resources (see above)</p>

flexibility instruments	<p>Proposal for a Council Regulation on the methods and procedure for making available the traditional and GNI-based own resources and on the measures to meet cash requirements (COM(2011) 512 Final)</p> <p><u>Legal basis:</u> Art. 322(2) TFEU <u>Procedure:</u> Council after having consulted the European Parliament</p>
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In these documents one can see the developments of what had been preannounced in the ‘EU Budget Review’ (COM(2010) 700 final), where the Commission had put forward its conclusions stemming from the consultation procedure and the internal preliminary discussions on the future of the EU budget. Further to the publication of the Budget Review, the main EU institutions had already reacted by setting out their main political messages as an input into the process. In this context the Committee of the Regions had put forward an opinion on “The EU Budget Review” (CdR 318/2010), which will be compared here with the MFF proposal, in order to determine to what extent the points made by regional and local authorities were taken up by the European Commission.

The responses of EU institutions and Member States to the Budget Review have triggered some further adjustments to the original (preliminary) proposals of the Commission, starting from the overall ceiling of expenditure. The European Commission decided to respond to the call of some Member States to limit the MFF to 1% of GNI, even if margins outside the MFF (‘flexibility instruments’) have been considerably extended.

While the Commission has not held back from proposing a ‘revolutionary’ⁱⁱ system of own resources, which has already raised opposition in many Member States, in other areas the proposals are more accommodating amendments. For instance with regard to the Common Agricultural Policy (CAP), the principles put forward for reform are still vague and the relative weight of CAP spending remains high for 2014-2020.

However, at the same time the significant efforts of the European Commission to better gear the resources towards the achievement of Europe 2020 objectives must be recognised, as well as the focus on added value and effectiveness of EU expenditure. Within this context, important changes are set to be introduced in the implementation of cohesion policy but also with regard to the amount of resources devoted to research and innovation.

The current proposals also clarify several elements which had remained vague following the publication of the EU Budget Review, such as the purpose and allocations for innovative financial instruments and infrastructure investment. On the other hand, many gaps still need to be filled in concerning, for example, the operationalisation of the ‘Partnership contracts’, which are likely to have a very significant impact on the utilisation of structural funds by regional and local authorities.

The detailed analysis below compares the Commission proposals to the Committee of the Regions’ opinion on the EU Budget Review, in order to:

- Highlight the main features of the MFF proposals;
- Verify to what extent these correspond to the CoR position;
- Analyse possible implications for regional and local authorities;
- Discuss opportunities for the CoR to elaborate specific policy reactions to the Commission’s proposals.

The table also integrates relevant points of previous CoR opinions, in order to verify the consistency of the policy messages put forward by regional and local authorities. The following documents have been analysed:

- Opinion of the Committee of the Regions on the contribution of cohesion policy to the Europe 2020 Strategy, CdR 223/2010
- Outlook opinion of the Committee of the Regions on the Future of Cohesion Policy, CdR 210/2009
- Opinion of the Committee of the Regions on the Fifth Cohesion Report, CdR 369/2010 fin
- Outlook opinion of the Committee of the Regions on the Future of the European Social Fund after 2013
- Own-initiative opinion of the Committee of the Regions on the Future of the CAP after 2013, CdR 127/2010 fin
- Own-initiative Opinion of the Committee of the Regions on The Committee of the Regions’ White Paper on Multilevel Governance, CdR 89/2009

In addition, the Commission proposal is compared to the recent European Parliament resolution of 8 June 2011, “Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe”.

The similarities and differences between the EP and the CoR opinion will then be further discussed in the second part of the paper, in order to identify the margin of manoeuvre for the CoR and the opportunity to support the EP during the negotiations.

<p>COM (2011) 500 final 'A budget for Europe 2020' (taking into account the proposal for Council Regulation on the Multiannual Financial Framework and the proposed Council decision on Own Resources)</p>	<p>CdR 318/2010 fin Opinion on 'The EU budget review'</p>	<p>CoR proposals retained</p>	<p>Possible controversial issues for the CoR</p>	<p>European Parliament Resolution of 8 June 2011, "Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe"</p>
<p>General aspects - Length of the Multiannual Financial Framework</p>				
<p>Length of the Multiannual Financial Framework: 7 years (2014-2020)</p>	<p>Favourable to the original proposal of the European Commission of a ten years MFF, with a mid-term review after 5 years (5+5)</p>	<p>NO</p>	<p>While the 10 years (5+5) length would have contributed to a better alignment to the political cycle and ensured more stability, there are no specific negative implications linked to the 7 years planning. Instead, as also has been underlined by the European Parliament (SURE committee), the 7 year framework, until 2020, should be "the preferred option as it could provide for more stability by ensuring the continuity of the programmes for a longer period, and also make a clear link with the Europe 2020 strategy" (A7-0193/2011).</p>	<p>"Takes the view that for the next MFF a 7-year cycle, set until 2020, should be the preferred transitional solution." (159.)</p> <p>The European Parliament <u>supports the position of the European Commission</u>, by excluding the alignment of MFF to the political cycle for now.</p>
<p>General aspects – Flexibility instruments</p>				
<p>The margin of flexibility outside the MFF ceiling has been extended, in order to respond to the needs for the budget to react more quickly. The already existing flexibility instruments have been confirmed, with some relevant changes:</p> <ul style="list-style-type: none"> - <u>European Globalisation Fund</u>: part of the fund will be used to provide transitory support to farmers to facilitate their adaptation to a new market situation resulting from indirect effects of globalisation - <u>A Reserve for crisis in the agricultural sector</u> is created (€ 3.5 bn) "to provide immediate support to farmers through a fast-track procedure". <p>The flexibility instruments, together with the expenditures outside the budget (e.g. EDF) represent 0.06% of total resources, bringing the total figure to 1.11% GNI.</p>	<p>Favourable to enhancing the flexibility of MFF, within and outside the ceilings.</p> <p>In particular, the opinion stressed the need to strengthen the possibility of funds' re-deployment within the headings, proposing a re-allocation of up to 25% of the amount of partnerships contracts for investment and development.</p> <p>Proposed the integration of the European Globalisation Fund within the MFF ceilings.</p>	<p>YES, with regard to the increased flexibility. However, this increase is outside of the MFF ceilings.</p> <p>NO, concerning the inclusion of the European Globalisation Fund in the MFF ceilings.</p>	<p>The proposal of the European Commission enhances the margin of flexibility outside the MFF, but not within it. This might reproduce the same difficulties of the budget to quickly adapt to changes.</p> <p>The flexibility outside the MFF, being 'potential' EU money, tries to strike a balance between the need to react to the implications of the crisis and the reluctance of MSs to increase the overall ceilings of expenditure. However, such a compromise might have implications for good governance, as flexibility instruments can be seen as 'shadow budgets'.</p>	<p>"Considers it crucial to maintain special instruments (Flexibility Instrument, European Globalisation Fund, European Union Solidarity Fund, Emergency Aid Reserve), which can be mobilised on an ad-hoc basis, by further simplifying their use and providing them with sufficient envelopes, as well as by possibly creating new instruments in the future." (152.)</p> <p>The European Parliament <u>had envisaged the possibility to have new flexibility instruments outside MFF</u>, but it does not specify for which purposes. It insists on the need to simplify the conditions and procedures of mobilisation of these instruments, elements which are not taken up by the Commission in the present proposals.</p> <p>The use of flexibility instruments has been used also by the Commission to argue the overall amount of resources was close (1.11%) to what the EP had been asking (+5%).</p>

General aspects – Structure of the MFF (Headings)				
<p>1) Smart and Inclusive Growth (including Economic, social and territorial cohesion) 2) Sustainable growth: Natural Resources (including market related expenditure and direct payments, European Maritime and Fisheries Fund, Rural Development Fund) 3) Security and citizenship 4) Global Europe 5) Administration</p> <p>In the Staff Working document of the Commission, accompanying the Communication, the different possible options are listed. The one above has been chosen as gives visibility to Europe 2020 structure, but also does not imply high (political and administrative) costs and stakeholders' understanding is easy to assure.</p>	<p>HEADINGS Wished to have a renewed structure, which would make explicit reference to cohesion policy and to territorial dimensions of EU action. The proposed structure featured: 1) Territorial policies 2) Policies for a sustainable future 3) European citizenship 4) External action 5) Reserve for flexibility and European interest, and reserve for review 6) Administrative expenditure</p> <p>WITHIN HEADINGS The CoR had suggested an inclusion of the European Maritime and Fisheries Fund (EMFF) and the Rural Development Fund in the Structural Funds corresponding to the Common Strategic Framework.</p>	<p>NO</p>	<p>While the 'territorial' dimension has not been explicitly referred to, there is a clear reference to cohesion. Within the first Heading 'Smart an inclusive growth', specific mention is done of the sub-Heading 'Economic, social and territorial cohesion'. Also funding related to maritime affairs and rural development has been included again in the heading related to market support measures for agriculture (CAP 1st Pillar).</p>	<p>The European Parliament has stressed on many occasions the need for Europe 2020 to be the main policy reference for EU action/spending. As a consequence, the resolution proposed a structure which would feature two main headings, one of which titled 'Europe 2020':</p> <p>1. Europe 2020</p> <p>1a. Knowledge for growth (Including research and innovation, education and lifelong learning and internal market policies.)</p> <p>1b. Cohesion for growth and employment (Including cohesion -economic, social and territorial- and social policies.)</p> <p>1c. Management of natural resources and sustainable development (Including agriculture, rural development, fisheries, environment, climate change, energy, and transport policies.)</p> <p>1d. Citizenship, freedom, security and justice (Including culture, youth, communication and fundamental rights and freedom, security and justice policies.)</p> <p>2. Global Europe (Including external action, neighbourhood and development policies.)</p> <p>3. Administration</p>
EXPENDITURES – Overall ceiling for commitments and payments				
<p>Given the strong position taken by several MSs against any rise of the ceiling beyond 1% GNI, the European Commission has proposed 1.05% GNI in commitments, resulting in 1% GNI in payments. The flexibility facilities outside the MFF increase the overall resources to 1.11% GNI. With regard to different policy areas, the overall</p>	<p>Clearly stated that "the EU must have a credible budget beyond the 1% of EU GNI so that it can achieve the major European objectives in accordance with specific local needs and exercise its new powers resulting from the Lisbon Treaty".</p>	<p>PARTIALLY, as the Commission's proposal goes just beyond 1% GNI.</p>	<p>The pressure on the Commission from the MSs has been very significant, for the EU budget to respect the climate of austerity of European capitals. However, by increasing the flexibility outside the MFF, the Commission has tried to take into consideration the requests of the EP</p>	<p>Is [...] convinced that at least a 5% increase of resources is needed for the next MFF; challenges the Council, in case it does not share this approach, to clearly identify which of its political priorities or projects could be dropped altogether, despite their proven European added value (163.)</p>

<p>resources were increased as follows: Research and Innovation: +46% Education and Culture: +68% Infrastructure and Funding: +287% Security and citizenship: +62% Global Europe: +19% Cohesion policy will become the main spending policy area by 2020.</p>			<p>and of the CoR.</p> <p>The CoR might need to defend this starting position contained in the Commission proposals, to avoid ending up under 1% of GNI.</p>	<p>After the release of the Commission's proposal, MEPs reactions were rather positive (e.g. President Buzek, Alain Lamassoure) notwithstanding the smaller increase of 0.8%. As mentioned by Lamassoure, "I am glad to see that the Commission's proposals reflect the main priorities of the European Parliament: spend better where Europe is necessary to save the money elsewhere."</p>
Expenditures – Research, innovation and education				
<p><u>Research and innovation:</u> As mentioned above, the European Commission proposes a significant increase of research and innovation funding (+40%). Also, it proposes to bring together the existing instruments (the Framework Programme, the innovation part of the Competitiveness and Innovation Framework Programme and the European Institute for Innovation and Technology) under a Common Strategic Framework for Research and Innovation, which will be called 'Horizon 2020'. In addition to the €80 bn allocated to this common framework, the European Commission stresses that cohesion policy instruments will be used as one of the most important instruments to tackle research and innovation capacity building at regional level. The Partnership Contracts will support smart specialisation strategies.</p> <p><u>Education and culture</u> Current education programmes will be brought under 'Education Europe', to which the budget allocates € 15.2 bn. As for culture, a new programme called 'Creative Europe' will bring together the resources for the pre-existing Culture, MEDIA and MEDIA Mundus programmes, with an envelope of € 1.6 bn.</p>	<p>Supports the Commission's direction towards enhancing research and innovation capacities and the implementation of smart regional specialisation, also with the help of ERDF-funded technical assistance programmes. However, it stresses the need to involve regional and local authorities in the development of programmes, in order not to impose 'models' which would be ill-suited for certain regions.</p>	<p>YES with regard to the principle of smart specialisation, but modalities of implementation of Partnerships contracts within the innovation area need to be clarified. NEED FOR CLARIFICATION</p>	<p>The European Commission has stressed in its proposal the need to create synergies between the common framework 'Horizons 2020' and the Cohesion policy funding dedicated to innovation. This shall be done through the Partnerships Contracts. In particular, the aim should be to enhance the innovation capacities of regions, leading to a higher number of researchers and innovators in convergence regions. There is a need for further clarification about the content and the operationalisation of such partnerships, to make sure regions are involved in the decisions about the objectives to be achieved.</p>	<p>The European Parliament stressed in its resolution the need to significantly increase the EU investments in Research and Innovation. As reflected in the Commission's proposal, the EP sees Cohesion policy as one of the main tools to enhance research capacities in Europe.</p> <p>The EP insists on two additional points: 1) the need to strengthen public-private cooperation in order to increase not only the financing, but also the capacities; 2) the necessity of simplifying the research funding framework</p>

Expenditures – Infrastructure for the future

The European Commission has proposed a ‘Connecting Europe’ facility, which shall ensure public intervention for those investments in infrastructure which the market alone will not be able to provide. Within this context, the areas of energy, transport and ICT represent the priorities. In particular, with regard to transport, “Europe needs a pan European ‘core network’ with corridors, carrying freight and passengers traffic with high efficiency and low emissions, making extensive use of existing infrastructure, completing missing links and alleviating bottlenecks and using more efficient services in multimodal combinations.”

The ‘Connecting Europe’ facility aims at providing part of such investments, complementing the national investments which can be supported by structural funds.

In fact, the European Commission envisages a strong co-ordination with Cohesion Policy. This is also the reason why ‘Connecting Europe’ has been put under the same heading, and why part of the Cohesion fund will be ring-fenced to support this infrastructure facility (€ 10 bn). It is also specified that co-financing rates from the EU will be higher where investments take place in ‘convergence’ regions than in ‘competitiveness’ regions.

The ‘Connecting Europe’ Facility is also one of the prominent example in relation to which the European Commission envisages to use innovative financial instruments and ‘Europe 2020’ project bonds, which are aimed at credit enhancement.

The proposal of the Commission allocates € 40 bn to the ‘Connecting Europe’ facility in the period 2014-2020.

Supports the idea that the European Union should invest in removing those cross-border bottlenecks in infrastructures, and sees an added value of the EU action in the field. The CoR has also underlined the need to first have a political decision on the infrastructures to be financed before determining the financial package.

The CoR warned against the creation of a single fund devoted to infrastructure financing, which would mainly rely on cohesion fund money.

PARTIALLY –
NEED FOR
CLARIFICATION

The proposal of the European Commission proposes the creation of a specific facility, but it also envisages devoting €10 bn of Cohesion Policy to the infrastructure programme. The fact of having ring-fenced funds within the total amount allocated to Cohesion Fund might not being ideal for the interests of local and regional authorities, especially because it is at this stage not clear how the projects will be chosen. Moreover, the communication from the European Commission states that ‘Connecting Europe’ will be centrally administrated, and thus there is a possibility of ill coordination with regional development strategies.

“underlines the urgent need to modernise and upgrade the European energy infrastructure”(94.)
“investing in effective transport infrastructure has a key role for Europe to defend its competitiveness” (95.)

Given the significant financing needs in the areas of transport and energy infrastructure, and given the positive externalities of these projects, stresses the need to develop an **incentive regulatory framework in order to promote public and private long term investment in these fields; asks that innovative financial instruments be developed in cooperation with long term investors** (93.)

Expenditures – Energy and climate				
<p><u>Energy investments</u> Infrastructure investments will be partially provided by the ‘Connecting Europe’ Facility (see above)</p> <p><u>Climate action</u> Aiming at a mainstreaming of climate action, the European Commission see the Partnership Contracts as a way to stimulate and monitor progress of investment contributing towards the 20/20/20 objectives: “cohesion policy has a crucial role to play in stepping up efforts to reach the 20% energy efficiency targets.” As a result, it is planned to strengthen the environmental proofing of Cohesion policy.</p>	<p>“does not favour the option of setting up special large-scale funds dedicated to the implementation of investments in energy and climate; prefers prioritising and further incorporating this policy priorities into all relevant policy fields, where a management set-up involving all levels of governance would ensure the efficiency and visibility of European action. However, specific bonds arranged by the EIB may be used for transnational or cross-border projects on clean energy productions and energy efficiency, as part of the goals for energy security and climate change mitigation.”</p>	<p>YES with reference for instance to the Europe 2020 project bonds (‘Connecting Europe’ Facility).</p> <p>NO with regards to the financing of large scale projects within the respective policy field.</p>	<p>The environment mainstreaming will also impact Cohesion policy, through the setting of priorities within the Partnerships contracts. Therefore, here again regional and local authorities need to ask for clarification about the extent to which a possible ‘green’ conditionality will be attached to the allocated funds.</p>	<p>“Underlines the need for a horizontal approach, combining measures to combat climate change and to reduce greenhouse gas emissions - in particular energy saving measures - in all relevant policy areas, including external policies.” (87.)</p> <p>“Climate actions should be mainstreamed in all relevant sections of expenditure including the external one.” (87.)</p>
Expenditures – Common Agricultural Policy				
<p>CAP is one of the two policy areas, together with Cohesion policy, for which the freezing of resources is proposed for the period 2014-2020. The share of the total budget will decrease from 41% to 36%.</p> <p>The two pillar structure is maintained: the first would contain a greener and more equal system of direct payment and the second would be more focused on competitiveness and innovation, climate change and the environment.</p> <p><u>Greening of the CAP</u> The Commission proposes to ‘green’ direct payments, through imposing conditionality upon 30% of direct support. The expected result would be to ‘shift the agricultural sector in a more sustainable direction, with farmers receiving payments to deliver public goods to their fellow citizens.’</p> <p><u>Convergence of payments</u> The levels of direct support per hectare will be progressively adjusted, in order to ensure a more equal distribution of the support. Over the</p>	<ul style="list-style-type: none"> - Share the idea of controlling CAP spending in order to focus it more on the goal of social and territorial cohesion and foster the coordination with other EU policy - “recognises the need for further reforms to the CAP, including the need for an adequately resourced budget to enable resources to be used to address other EU priorities; reiterates, however, that such reforms should be gradual, moving towards a fairer system of allocating direct payments across the EU and Pillar 2 (Rural development) allocations between Member States; simplification and efficiency should in particular be key priorities for the next phase of reform.” <p>In its previous opinion on The future of the CAP after 2013, the CoR has stated three main points: 1) the need to strengthen the</p>	<p>YES, with regard to the enhanced synergy with other EU policy (e.g. climate change)</p> <p>YES, with regard to the two-pillar structure of the CAP, which remain in the proposal of the Commission.</p>	<p>By re-stating the added value of Common Agricultural Policy, the European Commission has put forward some important changes to the way the resources will be allocated to farmers. In particular, the Commission tries to better align this traditional policy with Europe 2020 objectives, by introducing a green conditionality to direct payments.</p> <p>The emphasis on the second pillar of the CAP is quite significant, and goes in the direction of the EU Budget Review and the opinion of the CoR.</p>	<p>“The common agricultural policy (CAP) should also be <u>geared towards contributing to the achievement of the targets of the Europe 2020 strategy.</u>”(79.)</p> <p>“Calls on the Commission to present proposals for a <u>reformed CAP</u>, which aim at a more effective and efficient allocation and use of the CAP budget” (80.)</p>

<p>period, Member States which receive payments below the level of 90% will close one third of the gap between the current level and this level. Such change will be proportionally financed by Member States which have received above the average.</p> <p><u>Capping of direct payments</u></p> <p>Such a measure would be directed in particular to large agricultural holdings</p> <p><u>Flexibility instruments to cope with crisis in the agricultural sector</u></p> <p>Out of the MFF ceiling, two instruments will be used to react to unforeseeable circumstances or to facilitate the adaptation required by international agreements. (see above for details, in the part concerning flexibility instruments).</p>	<p>environmental criteria; 2) the need to address the income inequalities between farmers; 3) “Considers that the Common Agricultural Policy must, for the period 2014-2020, be given a consolidated and reinforced budget that is up to the challenges and issues to be addressed.”</p> <p>The first two points are in line with the CoR opinion on the EU budget, and are reflected in the Commission’s proposals. As far as the volume of the budget is concerned, however, there is no similar reference in the more recent opinion of the CoR.</p>			
Expenditures – Cohesion Policy				
<p>A number of key changes are proposed to change cohesion policy and its budget allocations:</p> <ol style="list-style-type: none"> 1. A Common Strategic Framework will put together the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, and the Cohesion Fund 2. The Commission “proposes to strengthen the focus on results and the effectiveness of cohesion spending by tying cohesion policy more systematically to the Europe 2020 objectives”. In order to do this, the conclusion of “Partnership contracts” if foreseen, in order to “set out the commitment of partners at national and <u>regional</u> level to utilise the allocated funds to implement the Europe 2020 strategy, a performance framework against which progress on 	<ul style="list-style-type: none"> - Supports the idea of having a common strategic framework for cohesion policy instruments - Share the proposal on introducing a category of ‘transition’ regions - A substantial part of the EU budget to be spent to speed up development in least developed regions - Supports the idea of partnership contracts, stressing that such documents have to be developed in partnerships with local and regional authorities - Welcomes the intention to increase the visibility and the scope of the European Social Fund (ESF) <p>Previous CoR opinions related to cohesion policyⁱⁱⁱ are in line with the opinion on the EU-budget review, and focus on the following points:</p>	<p>YES, for the proposal of a Common Strategic Framework, which has already been suggested by the CoR in a previous opinion regarding the future of cohesion policy.</p> <p>YES, for the introduction of ‘transition regions’.</p> <p>YES, for the increased visibility of ESF.</p>	<p>The concentration of priorities is important from a better spending perspective. However, it needs to be checked to what extent this will not constrain too much of the funding on priorities which might not respond well enough to the needs to regions and local authorities. It is important to ensure a good balance between the need to gear EU spending towards Europe 2020 and supplying European territories with the resources they need to engage in the realisation of such objectives.</p> <p>The issue of conditionality also needs clarification. A mechanism of <i>ex ante</i> and <i>ex post</i> conditionality is supposed to be put in place, which could limit the funding of less performing regions in the mid-term. The staff working paper clearly mentions that “lack of progress will give rise to the suspension or cancellation of funding.”</p> <p>Finally, it is important to notice that in</p>	<p>“Stresses the predominant role of cohesion policy for the accomplishment of the Europe 2020 objectives.”(66.)</p> <p>“Calls on the Commission to establish an intermediary category for the duration of the next programming period for regions whose GDP per capita stands at between 75 % and 90 % of EU GDP, in order to provide them with a clearer status and more security in their development.”(74.)</p> <p>“Warns against <u>subjecting cohesion funds to sanctions in the framework of macroeconomic conditionality linked to the Stability and Growth Pact</u> as this would go against the very objectives that cohesion policy is set to pursue, namely the reduction of regional disparities” (74.)</p> <p>“Stresses [...] the need to step up surveillance to ensure that structural funding is used in accordance with the EU law and the intended objectives.” (75.)</p>

<p>commitments can be addressed.”</p> <p>3. The increase in concentration on Europe 2020 objectives is enhanced also through the concentration of priorities, depending on the category of regions. Overall, cohesion fund will continue to be concentrated on the less developed regions and Member States. Transition and competitiveness regions “would be required to focus the entire allocation of cohesion funding (except for the ESF) primarily on energy efficiency and renewable energy; SME competitiveness and innovation. In these regions, investments in energy efficiency and renewable energy will be at least 20%.</p> <p>4. Ex ante and ex post conditionality will be attached to cohesion spending, in order to reinforce the focus on Europe 2020 objectives. 5% of the cohesion budget will be set aside and allocated, during the mid-term review, to the Member States and regions whose programmes have met their milestones in relation to the achievement of the programme’s objectives related to Europe 2020 targets and objectives.</p> <p>5. In order to avoid problems related to the absorption capacities of certain regions, the Commission has proposed to fix at 2.5% GNI <u>the capping rate</u> for cohesion allocations.</p> <p>6. Wishing to upgrade the role played by the European Social Fund (ESF), propose to establish minimum shares fund support for the ESF for each category of region</p> <p>7. A new category of Regions, “transition regions”, is proposed for territory with</p>	<ul style="list-style-type: none"> - the debate on the future of cohesion policy must precede the discussion on the financial resources attributes to the instruments; - cohesion funding should continue to cover all European Regions, but focus on least developed territories - regional and local authorities need to be highly involved in the implementation of cohesion policy, as its instruments contribute to the achievement of Europe 2020 goals - expresses concerns with regard to the thematic concentration, which might imply that regions are obliged to choose from a ‘menu’ solely defined at EU level. Recommends that priorities for cohesion policy should not be limited to Europe 2020 goals - proposes the creation of ‘transition regions’, with a GDP between 75% and 90% of EU average. <p>Implementation, evaluation and conditionality:</p> <ul style="list-style-type: none"> - Approves the creation of a Common Strategic Framework, but asks the European Commission to specify the linkages among the different instruments; - Asks for a clarification on the functioning of the ‘partnership 	<p>YES with regard to the confirmation from the Commission that ‘Partnership contracts’ will be developed with each Member States. However, certainty is not provided about if and how local and regional entities will be involved in the elaboration.</p> <p>NO, with regard to the reserve for most performing regions</p>	<p>relative terms resources have been re-directed towards research, education and innovation. The absolute amount of spending for Cohesion policy will decrease from 2013 to 2014, and would be frozen afterwards.</p>	
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<p>a GDP per capita between 75% and 90% of the EU-27 average.</p> <p>8. While Cohesion policy is set to become the most important spending chapter by 2020, total resources allocated have been frozen, as with the Common Agricultural Policy (i.e. a real term cut).</p> <p>9. The Commission proposes to allocate €336 billion for the 2014-2020 period for spending in cohesion policy instruments:</p> <ul style="list-style-type: none"> • €162.6 billion for convergence regions • €38.9 billion for transition regions • €53.1 billion for competitiveness regions • €11.7 billion for territorial cooperation • €68.7 billion for the Cohesion Fund <p>10. The proposal for a Council Regulation, Art. 8 might have implications for regional and local authorities. The details of this article will be dealt in the second part of this paper.</p>	<p>contracts’, and proposes that local and regional authorities have to be involved in drawing up, negotiating and implementing these contracts, insofar as they are directly involved in the operational programmes (OPs) that such contracts provide for.</p> <ul style="list-style-type: none"> - Opposes the to the provision on external macroeconomic conditionality but supports the establishment of internal conditionality. - Opposes the creation of a performance reserve. - Underlines that mechanisms of evaluation already exist, and they should be taken into account before introducing new systems. <p>‘Territorial pacts’:</p> <p>In line also with the White Paper on Multilevel Governance^{iv}, the CoR proposes in its opinions to establish ‘territorial pacts’ which would bring together the different levels of governments, for the implementation of the policy objectives. In particular, these ‘territorial pacts’ would set out at the level of the European institutions the involvement of local and regional authorities in implementing the Europe 2020 strategy.</p> <p>With regard to the <u>European Social Fund</u>, the CoR had suggested in a previous opinion on The Future of the European Social Fund after 2013, that more complementarity between the ESF and the ERDF should be pursued. In addition, the opinion stresses the need to strengthen the monitoring based on the achievement of objectives, and not on the respect of procedural requirements.</p>			
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REVENUES – Own Resources				
<p>For the first time, the European Commission has made a <u>formal proposal with regard to the sources of financing of the EU budget</u>. In the proposal for a Council Decision on the system of own resources of the European Union (COM(2011) 510 final) the Commission put forward the elimination of the VAT-based own resource and the creation of a new own resource. The current VAT resource will be replaced by a new VAT to be introduced in 2018 at the latest. By 2020, the new VAT resources would represent 18.1% of the EU budget.</p> <p>The new own resource will be a Financial Transaction Tax (FTT), for which the Commission will present a proposal in the autumn of 2011. In the Commission's view, the introduction of a FTT would reduce the <i>juste retour</i> problems observed in the current system, and would be the first step towards the application of a FTT at a global level. By 2020, FTT would represent 22.7% of own resources.</p> <p>The document also addresses the simplification of Member States' contribution, by proposing to replace the rebates with a system of 'lump sums'. As the explanatory memorandum of the proposal for a Council Decision outlines, this new mechanism of 'lump sums' would replace all pre-existing corrections starting from January 2014. The amounts to be paid back to Member States would be calculated based on current assumptions independent from the introduction of new own resources.</p> <p>At Article 4, the proposal also specifies which amounts will be given to Member States and which countries will be the beneficiaries for the period 2014-2020 (i.e. Germany, the Netherlands, Sweden and the United-Kingdom).</p>	<ul style="list-style-type: none"> - Welcomes the idea of defining a funding mechanism based on own resources 	YES	<p>The two taxes proposed by the European Commission do not specifically have regional and/or local implications.</p>	<p><u>“strongly calls [...] for an in-depth reform of EU resources</u> in order to realign the financing of the EU budget with the spirit and requirements of the Treaty” (166.)</p> <p>“is convinced that the introduction of one or several genuine own resources for the Union, in order to replace the GNI-based system, is indispensable if the Union is ever to get the budget it needs to significantly contribute to financial stability and economic recovery”. (167.)</p>



B. First Member States reactions to the European Commission proposals

Following the publication of the EU Budget Review in October 2010, several Member States had already stated their ‘red lines’ for the negotiations. The Commission faced strong opposition from countries such as Germany and the UK to the introduction of new own resources (an ‘EU tax’), but also demands for the European budget to respect the austerity climate limiting national budgets. Against this backdrop, the current MFF proposal of the European Commission tries to accommodate a good number of Member State concerns, but certain objections have nonetheless been expressed during the past weeks.

The reorientation of the budget to ensure delivery of the Europe 2020 objectives was generally well received by the Member States, although there is some concern regarding the insufficient funds allocated to the ‘social’ component of Europe 2020. Regarding the overall size of the budget, the UK, the Netherlands, France, Germany and Sweden are strongly opposed, considering that expenditure should be reduced. In particular, the UK has been voicing its opposition to the increase of the overall volume obtained by summing up the different flexibility instruments outside of MFF. The Polish Presidency regards the proposal as a good starting point for negotiations, although some countries, like Italy, believe negotiations will be difficult due to the proposals being too vague.

The changes in the Common Agricultural Policy were generally accepted by most Member States, although the UK, the Netherlands and Denmark showed interest in reducing the expenditure further in this area. Romania and Hungary raised some concerns about the stronger conditionality provisions for the cohesion policy, and about the measures proposed for strengthening the absorption of funds.

As a reaction to the Commission’s proposals, the French government declared its priority of reducing the spending for cohesion policy, in favour of the Common Agricultural Policy. On the other hand, representatives of French regions promptly expressed their support for the changes in the cohesion policy, particularly the Commission’s proposal to introduce a new category of ‘transition regions’, which would allow many regions to keep receiving funds. This change would help regions that move out of the ‘convergence regions’ category to avoid a sudden reduction in aid intensity. Such regions will continue to receive important funding until they reach a GDP of over 90% of EU average. France also supports the view that there should be more flexibility in the use of structural funds.

The German government considers the level of expenses in the new budget as being too high, pointing out that the overall EU spending will be higher than the proposal suggests, since part of the expenditure is outside the MFF, amounting to 1.11% instead of 1.05% of GNI. Therefore, Germany suggests an 8.9% reduction of the expenses under the MFF, with most of the cuts being done in the area of structural funds. Due to its commitment to the phase out of nuclear energy, more funding for the development of infrastructure in the energy sector could potentially change Germany's otherwise sceptical attitude towards the new infrastructure investment fund. In the area of cohesion policy, Germany expresses caution over the introduction of the new category of regions, as this change would limit the possibilities of overall reductions in the MFF expenditure.

Another German objection concerns the changes in the system of the Union's own resources, the tax on financial transactions being particularly inconvenient for this country. France and Austria have so far been the only two countries supporting the idea of a financial transaction tax, whereas several other countries have not yet expressed their position on the question of new own resources.

In the case of Germany, although the country agrees with the tax per se in order to reduce risk taking of financial institutions, it does not hold the view that the tax should be a way of financing the EU. Instead, Germany believes that the revenues deriving from it should be partially used for reducing national budget deficits.

While there might be agreement on general issues regarding the strategic directions of the future EU budget, with most Member States for example supporting the concept of a stronger concentration on areas of added value of EU-level expenditure, critical areas still remain. The text is seen as being a good starting point for discussion by most, but many tricky issues are likely to appear during negotiations including the actual size of the budget, the proposals regarding own resources and the financial transaction tax. The CAP, with traditional supporters like France, and critics like the UK and the Netherlands, will be a major source of debate with Cohesion Policy also likely to feature. Central and East European member states are likely to express strong interest in keeping cohesion policy funding as high as possible. In fact, the budget negotiations will possibly unfold as a confrontation between wealthier net contributors who want the budget reduced in the current climate of domestic austerity, and poorer Member States aiming to preserve funding. Overall, such divergence between net beneficiaries and net contributors might make negotiations result in a *status quo*, which would make countries agree on the lowest common denominator (i.e. little change compared to previous MFF).

Part 2: Areas for CoR positioning on EC legislative proposals

A. Suggested policy reactions for the CoR

The proposal of the Commission has been recognised by many Member States and by the EP as a ‘good starting point’ for negotiations. MEPs declarations^v following the release of the EC Communication ‘A budget for Europe 2020’ (COM (2011) 500 Final) seem to indicate that the European Parliament will support the Commission to ensure that its proposals will not to be watered down by Member States. An EP-Commission ‘coalition’ appears therefore likely, also insofar as the positions of the two institutions are very similar on a vast number of issues. Our analysis has shown that, despite not retaining a 5% increase in the overall budget (at least not inside the MFF), the Commission has accommodated many EP requests, starting from the strengthened focus on Europe 2020 to the proposal for a Financial Transaction Tax (FTT).

The European Commission and the European Parliament can therefore also be seen as the key strategic partners of the Committee of the Regions for the upcoming negotiations. Although the proposal from the European Commission might not be overly ambitious, especially with regard to representing a credible tool to help the EU to exit the crisis, it nevertheless presents many elements of innovation that go in the direction of better spending, i.e. increasing the added value of EU money by focusing on those pan-European goods which can be better provided at European level.

The increase of resources allocated to research, innovation and education are a tangible sign of the commitment to deliver on the key objectives of smart and sustainable growth. However, the significant reshuffling of resources towards these objectives has an important impact on the ‘traditional policies’ of the EU, i.e. Common Agricultural Policy and Cohesion Policy. The European Commission is in fact proposing a ‘freezing’ of the resources allocated to CAP and cohesion over the period 2014-2020, proposing several reforms to enhance the effectiveness of spending and the link to Europe 2020. Here, the Committee of the Regions could focus most efforts in trying to clarify the implications of such policy changes, in order to ensure the maximum involvement of regional and local authorities in the implementation phase, i.e. ensuring that the changes respect the concept of multi-level governance.

A.1 MFF and 'Partnership contracts'

The MFF attribute a clear importance to Cohesion policy, as one of the main instruments to achieve Europe 2020 goals. However, it emerges from the proposal that cohesion policy instruments will be significantly modified, also as a consequence of framing them within the 'Partnership contracts'. Both on the content and on the method of these contracts, there are many open questions given the current vagueness of the Commission's proposals.

As we have indicated in the table above, the Commission proposes to increasingly focus the funding by reducing the number of objectives, but it also envisages applying *ex ante* and *ex post* conditionality to the achievement of these objectives, as well as introducing macro-economic conditionality.

With regard to the first point, there is a clear risk of trade-off between the concentration of objectives and the capacity to take into account the extremely diversified needs of European territories. Against this background, it is still not clear to what extent the focus on specific objectives will be binding on each category, and how much autonomy will be left to regional and local authorities to respond to their most pressing problems through use of the structural funds.

Concerning conditionality, it will introduce performance conditions that regions will be asked to fulfil, which might create incentive but could also weaken those regions already struggling to create the conditions for economic development. Moreover, a specific 5% of the funding is proposed to be devoted to the rewarding of the territories where progress is made, while mention is made of the possibility of suspending funding should the objectives not be achieved (COM(2011) 500 final, Part II). Regions might also end up having funding withdrawn if their Member State does not respect European fiscal rules.

Against this background, the CoR has to call for clarification, in order to evaluate the concrete consequences of the changes proposed by the Commission. The following questions will need to be addressed:

- How will the 'Partnerships Contracts' be operationalised? How is the involvement of regional and local authorities being envisaged?
- How will the concentration of objectives impact on the regions' ability to set policy responses which correspond to specific needs? What consequences will it have on those regions that have to first develop their administrative capacities (e.g. with regard to the focus on energy efficiency)?
- How will the *ex post* conditionality work? Will it be applied taking into account the different administrative capacities of territories?

The key underlying question has to be how ‘regional’ regional policy will be in future. If the policy and funding is envisaged as mainly an implementation tool for top-down priorities, this would raise some serious questions about the direction of the Commission proposals. In its planned workshop on 4 October 2011, “The next EU budget: less scope for regional priorities?” (provisional title), the CoR will discuss these issues, analyse and make forward-looking suggestions on possible inter-linkages between the Europe 2020 strategy, the new economic governance (“European Semester”) and the MFF for 2014-2020.

B. The CoR positioning in upcoming negotiations

Given the position the European Parliament has been taking with its opinion (‘Investing in the future: a new Multiannual Financial Framework for a competitive, sustainable and inclusive Europe’, 8 June 2011) and the already compromising nature of the Commission’s proposal, **part of the CoR position should aim at defending the overall ceiling of resources and some of the innovative features in the proposal.** Within this context, the following proposals are in line with previous positions of the Committee of the Regions:

1. The overall amount of appropriation for commitments, i.e. 1.05 % GNI (1.11% GNI with the flexibility outside MFF);
2. The creation of a Common Strategic Framework including the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, and the Cohesion Fund
3. ‘Green’ conditionality and more equitable distribution of direct payments for the CAP;
4. The creation of a new category benefiting from structural funds, i.e. ‘transition regions’
5. The development of ‘real’ own resource, in particular the financial transaction tax;
6. The changes to the national correction systems by using a ‘lump sums’ mechanism
7. The ability to invest more in infrastructure and leverage private investment

These proposals risk being watered down by the opposition of some Member States, while they represent positive signs towards an increasing added value of EU spending. Moreover, points 2 and 4 represent two important successes for the Committee of the Regions, as the proposals were made in their previous opinions.

Much of the positioning of the CoR will depend on the specific details on **the overall framework MFF – Reform of Cohesion Policy – Partnership contracts, for which the proposals are vague and need clarification.** However, concerns could already be raised regarding the resources ‘taken away’ from cohesion objectives for the ‘Connecting Europe’ Facility (€10 bn) and for part of the ‘European Globalisation Fund’, which will be dedicated to help farmers adapting to changes resulting from the economy and from international agreements (up to €2.5 bn). These, together with the nominal freeze, mean significantly less money is available at regional level.

With regard to specific amendments that the CoR could propose, two articles of the Council Regulation laying down the multiannual financial framework for the years 2014-2020 need to be considered:

- Art. 8 Adjustment related to excessive government deficit

“In case of the lifting of a suspension of budgetary commitments concerning the Cohesion Fund in the context of an excessive government deficit procedure, the Council, in accordance with the Treaty and in compliance with the relevance basic act, shall decide on a transfer of suspended commitments to the following years. Suspended commitments of year n may not be re-budgeted beyond year n+2.”

Article 8 already existed previously, and was contained in the Inter-institutional agreement. Thus, article 8 sets out a system of adjustment in case the transfers should be suspended as a result of an excessive deficit procedure against the national government. This article might become very significant for regional and local authorities, but its implications need to be checked against the economic governance package, as the strengthening of the Stability and Growth pact might have implications on the effective possibility of suspension of cohesion funding. The application of such macroeconomic conditionality could have disruptive consequences on the implementation of Structural Funds for the period 2014-2020 and the Committee of the Regions might want to voice its strong opposition in line with its previous opinions.

- Art. 15 Mid-term assessment of implementation of the financial framework

“In 2016, the Commission shall present an assessment of the implementation of the financial framework accompanied, where necessary, by relevant proposals”

This article proposes a kind of ‘mid-term review’ but falling short of the Committee of the Regions’ proposal, when suggesting a ‘5+5’ Multiannual Financial Framework. The formulation of this article is very vague: it might be worth revisiting this article and specifying what this mid-term assessment will consist of and which consequences it could have on different policy areas.

Conclusions

The proposals the European Commission has put forward represent a good effort in focusing EU spending on its main objectives, i.e. Europe 2020, and they also strike a good balance among the different institutional interests and the current economic climate. However, in many ways, the Commission's proposal is not ambitious enough, and it leaves the question open as to whether such a future budget will be able to decisively help the EU out of the current crisis.

One of the most pressing challenges for the EU is to deal with the Euro crisis and support those countries that have been hit the most. In parallel, the Union needs to set the ground for ensuring long-term growth in all European regions. Through the EU budget, the European Commission intends to tackle these challenges by increasing investments in research and innovation, providing the EU with the necessary infrastructure, but in particular by ensuring the effectiveness of each Euro spent at European level. It is in this context that those changes that are likely to impact most on regional and local authorities have been proposed, in particular to cohesion policy.

Unfortunately, it is exactly in this area that the proposals of the Commission remain vague, e.g. the implementation of the 'Partnership contracts'. The reduction of priorities, the concentration of funding and the (*ex ante* and *ex post*) conditionality, risk that regional policy simply becomes an implementation tool for top down priorities which will be imposed on regional and local authorities. The first objective of the CoR should be to ask for clarification and ensure European territories are well engaged in the elaboration of such 'Partnership contracts'.

In several areas, the European Parliament has been taking very similar positions to those of the CoR. With regard to the introduction of a Financial Transaction Tax and the greening of the CAP, the two institutions share the same position. As discussed, the European Parliament is likely to have a much stronger position in these upcoming negotiations than it used to have in the past, and recent MEPs' declarations suggest that it will be supporting the main innovative features introduced by the Commission.

The Treaty of Lisbon opens new inter-institutional configurations that might alter the usual bargaining among Member States in the coming 18 months. The CoR 'window of opportunity' is now, where the ground is prepared for the high-level political negotiations and there is therefore a more concrete possibility of shaping the details of the final package.

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ⁱⁱ Janusz Lewandowski, 'Reforming the budget, changing Europe: will the budget review transform Europe?', EPC Breakfast Policy Briefing, 12 July 2011, Report available at http://www.epc.eu/events_rep_details.php?cat_id=6&pub_id=1321

ⁱⁱⁱ Opinion of the Committee of the Regions on the Fifth Cohesion Report, CdR 369/2010 ; Opinion of the Committee of the Regions on the Contribution of Cohesion Policy to the Europe 2020 strategy, CdR 223/2010 fin

^{iv} Own-initiative opinion of the Committee of the Regions on the Committee of the Regions' White Paper on Multilevel Governance, CdR 89/2009 fin

^v EP Press Release, 'EP reactions to Commission proposals on future budgets and new resources'