The state of play on the EU Multiannual Financial Framework (MFF) 2014 – 2020 interinstitutional negotiations

The report was written by
by the European Policy Centre (authors: Claire Dhéret, Andreea Martinovici and Fabian Zuleeg).

More information on the Committee of the Regions is
available on the internet through http://www.cor.europa.eu

Catalogue number: QG-31-13-550-EN-N

Table of contents

Executive summary

The negotiations on the Multiannual Financial Framework (hereafter MFF) 2014 – 2020 take place from 2011 to 2013 and involve the European Commission, the European Parliament (hereafter EP) and the Council of the European Union (hereafter the Council), and should take into account the opinions of the European Economic and Social Committee (hereafter EESC) and the Committee of the Regions (hereafter CoR). The process started with the Commission tabling its proposals for a legislative package in June 2011. During 2012, the Council and the EP will have to reach agreement if the new legal bases are to be adopted in 2013. The MFF package proposed by the Commission comprises three parts: the MFF regulation, the own resources legislative acts and the sector specific acts. However, the MFF is more than three separate blocks of legislation with different adoption procedures. It is a 'political power game', where these three core elements become interdependent, as each institution attempts to compromise its own views as little as possible. Thus, in the months leading up to the envisaged agreement, the EU institutions involved in the negotiation process still demonstrate important differences in opinion. Moreover, the Member States (hereafter MS), presenting their standpoints in Council meetings, are yet to find a common ground on the proposals.

One of the underlying causes for the divergences among and within the institutions involved in negotiations seems to be the different understanding of the role of the EU budget – as an investment budget that can invigorate growth or as a spending budget financed by MS deeply affected by austerity measures. At the same time, the lack of an official Council position on the MFF 2014 – 2020 makes any estimation of the final outcome all the more difficult. Additionally, the fact that MS express their views without coherent and consistent references – sometimes talking about constant prices, some other times about real prices, sometimes about commitments and some other times about payments – is making the debate difficult to follow. To this adds the complexity of the 'negotiating box', including numerous different areas and issues that are not all covered by MS when presenting their positions.

With regard to budget figures, it must be underlined that the positions of the EU institutions and MS in this respect have been very vague and few, making the task of filling in the negotiating box very challenging. Against this background, the authors of this note propose to illustrate how the proposal made by the Commission would look like under an optimistic scenario based on a ceiling of 1.1% of EU GNI and a pessimistic scenario at 1.00% of EU GNI. Moreover, they also draw up a table of ideal amounts based on CoR’s different opinions when the information is available.

Introduction

This note has been produced by the European Policy Centre (EPC) under its Framework Contract with the CoR on the EU Budget. It aims to analyse the state of play in the MFF 2014 – 2020 interinstitutional negotiations and proposes some figures for the different headings of the MFF. While the negotiations have been under way since June 2011, they have now entered the crucial final phase as they are expected to be concluded by the end of 2012. As a basis for the final phase of the remaining negotiating process, the Council published the 'negotiating box' in June 2012, which aims to present 'a balanced solution to outstanding issues relating to the structure of the next MFF'[1].

The negotiations on the MFF involve the European Commission, the EP and the Council, which have to take into account the opinions of the EESC and the CoR. The process started with the Commission tabling its proposals for a legislative package in June 2011. During 2012, the Council and the EP will have to reach agreement so that the new legal bases are adopted in 2013 in view of enabling the new MFF to enter into force in 2014. The MFF package proposed by the Commission comprises three parts: the MFF regulation, the own resources legislative acts and the sector specific acts.

In analysing the positions of the EU institutions on the MFF 2014 – 2020 proposed negotiating box, this note is structured by topic, looking at the different issues covered by the box. However, given the limited length of this note, the authors have chosen to focus on the main elements of the negotiating box that are subject to lively debates among the EU institutions, instead of analysing the technical and detailed aspects of each policy covered by the box.

This note is structured around two sections. In the first section, the authors present the convergences and divergences in opinions among the EU institutions involved in the negotiations, focusing on the overall amount and structure of the MFF 2014 – 2020, the main principles governing the negotiations, the most important policy areas, some technical aspects like the increased use of financial instruments and the issue of own resources. The second section proposes budget figures for the negotiating box under both a positive and negative scenario, based on the input

[1] Council of the European Union, 19 June 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Multiannual Financial Framework (2014 – 2020) – Negotiating Box*, p. 4.

provided by the current orientation of the debates and the views expressed by the CoR in its various MFF-related opinions.

I. Convergences and divergences of views

1. Context and negotiation procedures

Before analysing the main elements of the negotiating box, this section looks into the general context of the negotiations, including legislative and political aspects.

The MFF and its three core blocks

As indicated in the introduction, the MFF package proposed by the Commission comprises three parts: the MFF regulation, the own resources legislative acts and the sector specific acts. The adoption of these acts is governed by different rules. The rules of adoption may differ according to whether the procedure required in the Council is unanimity or qualified majority, and to the degree of involvement of the EP. For the MFF regulation, the EP has to give its consent before the Council can adopt it by unanimity (or qualified majority if the European Council decides so unanimously). Regarding own resources, the Commission proposed five legislative acts that will be adopted as follows:

- The decision on own resources that has to be adopted by the Council unanimously, after having consulted the EP. It is important to note that national parliaments will have to ratify the decision on own resources, which gives them a direct say on this significant change in the structure of financing EU's budget.
- The Council regulation with implementing rules that has to be adopted by the Council by qualified majority, with the consent of the EP. While the EP may approve or reject the Council's position, it may not adopt amendments.
- The three Council regulations on how to make the different own resources available that has to be adopted by the Council by qualified majority after having consulted the EP[2].

With regard to the sector specific legislative acts, the Council and EP have to adopt these by co-decision. Therefore, the EP has more power to influence the outcome of the negotiations in the case of the legislative acts for the specific policy areas.

The MFF: a 'political power game' among the EU institutions

Understanding the procedure under which each core block of the negotiating box will be adopted is crucial in order to better grasp what is at stake for each institution. However, it is also important to look beyond the specificities of each

[2] See: http://www.consilium.europa.eu/special-reports/mff/decision-making-process02

legislative procedure and to try to comprehend the political significance of the negotiations. The next MFF is more than three separate core blocks with different legislative procedures; it is a real 'political power game' where each institution tries to make final agreements, as much as possible, in line with its own views and where the degree of satisfaction with the conclusions reached for one of the three blocks has significant implications on the negotiations of another block. For instance, even though the EP's legislative power may be limited, its political powers can compensate in this regard. Consequently, the EP will be able to withhold giving its consent on the MFF regulation if its call for reforming the EU budget's own resources is not taken into account.

In the same spirit, the EP urges the Council to take its position into consideration at an early stage of the negotiations, to make sure that agreement is reached. Moreover, some MEPs have expressed concern that, during the Danish Presidency, the Council passed some sensitive issues of the legislative package under the negotiations for the MFF regulation, where the EP only has to give its consent[3]. However, any decision on the MFF will also depend on the political power game unfolding, and even though the EP's legislative power may be limited, its political powers can compensate in this regard. Consequently, the EP will be able to withhold giving its consent on the MFF regulation if it is not satisfied with the conclusions reached on the introduction of new own resources.

During the Budgets Committee meeting in July 2012, Alain Lamassoure, Chair of the Committee, called upon the Cyprus Presidency to begin clearer negotiations with the EP and the Council, also expressing his belief that the new presidency of the Council is more willing to accommodate the EP's position. Also, GöranFärm, member of the Budgets Committee, analysed the work plan published by the Cyprus Presidency and identified some areas where the EP should express its opposition. For instance, regarding the fact that the Council 'will organise briefings and debriefings of representatives of the European Parliament in the margins of each General Affairs Council (hereafter GAC) meeting where the MFF is on the agenda.'[4], Mr.Färm underlined that the communication between the Council and the EP should stop being one-sided, from the Council to the EP, as foreseen in the work plan. In addition, on the issue of deciding on the sectoral legislative

[3] See: http://www.europolitique.info/politiques-sectorielles/les-d-put-s-ne-veulent-pas-se-laisser-d-poss-der-de-leurs-droits-art339872-18.html

[4]Council of the European Union, 2 July 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Multiannual Financial Framework (2014-2020) - Organisation of work within the Council in the second semester 2012*, p. 2.

proposals, the MEP highlighted that they are not a matter of 'informal dialogue with the European Parliament'[5], but fall under the co-decision procedure.

In its opinion of December 2011, the CoR expresses its regret that the EP continues to have only assent powers on the MFF and not full co-decision powers, 'meaning it cannot formally amend the proposals'[6]. In this context, the CoR asks the Commission and the Council to engage the CoR and the EP in negotiations 'through putting in place strengthened cooperation mechanisms'[7].

The diverse positions among MS

At this point of the negotiation process, there is no official Council position on the MFF 2014 – 2020. However, MS express their individual or group opinions in meetings of the different Council configurations and bilateral meetings. The GAC is the Council configuration where the discussions on the multiannual budgetary perspective take place. Among the 27 MS represented in the Council, the opinions can differ from one country to the next, but two different groups have crystallised: Friends of Cohesion[8] and Friends of Better Spending[9]. Some MS, such as the UK and Belgium, are not affiliated to any of the two groups. In addition, even though countries that are part of one of the groups may not concur completely on all aspects, they generally take the same position on important issues. Obviously, the Friends of Cohesion are those countries that benefit most from funding under this policy and they advocate for maintaining or increasing its budgetary allocation. The Friends of Better Spending are proponents of limited public spending, seeing quality of spending as key for budget consolidation and the need for growth[10]. In substantiating their position, they remind of the reforms and austerity MS have to implement at national level in order to respond to EU demands to return to balanced budgets. Last but not least, it goes without saying that countries' positions can change over time and as negotiations progress due to changes in political leadership. For example, the position of France nowadays is less clear-cut than it was previously, under the mandate of President Sarkozy.

---

[5] Council of the European Union, 2 July 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Multiannual Financial Framework (2014-2020) - Organisation of work within the Council in the second semester 2012*, p. 3.

[6] Committee of the Regions, 93rd Plenary Sessions, 14 – 15 December, *Opinion of the Committee of the Regions. The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 12.

[7] Ibidem.

[8] Bulgaria, Czech Republic, Lithuania, Latvia, Greece, Estonia, Romania, Malta, Poland, Slovakia, Slovenia, Spain, Hungary.

[9] Austria, Germany, Finland, France, Italy, The Netherlands, Sweden.

[10] See: http://www.europolitics.info/pdf/gratuit_en/313262-en.pdf

2. Overall amount and structure of the MFF

2.1. Overall amount and structure of the MFF

The Commission

In the proposal made by the Commission for a budget for Europe 2020 in June 2010, the overall amount was 1.05% of EU GNI in commitments, which translates into 1% in payments. When adding the further 0.02% in potential expenditure outside the MFF and 0.04% in expenditure outside the budget that finances unforeseen expenditure for crises and emergencies and expenditures 'which benefit from ad hoc contribution from Member States'[11], the overall level of commitments raises to 1.11% of EU GNI.

One year later, in order to respond to the need to accommodate for Croatia's accession, and taking into account the most recent economic data, the Commission updated its proposals. The overall ceiling was increased from 1.05% to 1.08% of EU GNI in commitments and from 1.00% to 1.03% of EU GNI in payments. The Commission explains the percentage increases mostly as a consequence of additional allocations for cohesion and agriculture due to Croatia's accession.

The proposals from the Commission are expressed in 2011 prices.

The Commission structured its proposal for the 2014 – 2020 budgetary framework under five headings:
(1) Smart and Inclusive Growth;
(2) Sustainable Growth: natural resources;
(3) Security and citizenship;
(4) Global Europe;
and (5) Administration.
In addition, some funds and instruments are financed outside the MFF[12] to allow the EU some flexibility in facing new challenges.

The Council

In the Council, the debate on the overall amount of the MFF is very intense. At the GAC meeting on 27 January 2012, five MS, led by the UK and Germany, asked for

---

[11] European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 Part I*, p. 5

[12] Emergency Aid Reserve, European Globalisation Fund, Solidarity Fund, Flexibility Instrument, Reserve for crises in the agricultural sector.

EU spending to reflect the austerity measures taken at national level. According to an article in European Voice, Guido Westerwelle, the German Foreign Minister, said in the GAC meeting that 'the Commission proposal needs to be cut by 100bn euros'[13] as 'we are engaged in budgetary consolidation'. The other states backing this call were Austria, the Netherlands and Sweden. Previously, the UK, France, Germany, the Netherlands and Finland asked for the level of spending envisaged for 2014 – 2020 to be capped at the level of inflation.

In the GAC of 24 July 2012, the UK declared that having a ceiling on the overall size of the budgetary framework was its first priority in the negotiations. In this respect, a growth in payments in line with inflation would be a clear redline, considering that a real-terms freeze in terms of payments is 'already generous'.

Sweden, part of the group of the Friends of Better Spending, militates for a real freeze in payments, and finds it 'remarkable that in times of weakening growth we could have an increasing budget'.

Germany said that a ceiling of 1% must be applied to the overall level of the MFF. In the context of an expected decrease in growth rates, savings are necessary and investment in smart growth and job creation is key. Denmark agrees with Germany's opinion, saying that ensuring both growth and employment by remaining within the overall ceiling of 1% of GNI is, indeed, possible. Austria favours cutting the budget by at least 100 billion euros, believing that the efforts made at national level to achieve fiscal consolidation should be mirrored in a reduced EU budget.

At the same time, other MS support the Commission's proposal or even advocate for an increase in spending that they see as crucial for returning to growth and creating jobs. For instance, Belgium, unaffiliated to any of the abovementioned groups, stated that the negotiations on the next budgetary framework should take place in the context of a broader debate on the future of the European project. It is difficult to decide on reducing the overall level of the budget without taking into account basic principles of the EU, such as solidarity among MS. Earlier this year, the Belgian Prime Minister said that those asking for reduced spending are in contradiction with the goals of creating more jobs and growth.

It must be underlined here that MS have so far only expressed their opinions on topics that are of most interest to them. That is why it is difficult to draw up a list of

[13]Brand, C., 2012, *Germany and the UK lead calls for EU spending cuts*, [online] European Voice.

the countries that are in favour or against each and every aspect of the MFF. Therefore, this note only refers to those opinions that have been most vocally expressed during the negotiations up to present.

The EP

In July 2010 the special committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 (in short, the SURE Committee) was created, with a one year mandate to define the EP's political priorities for the new MFF. In its resolution of 8 June 2011 of May 2011,the EP underlines the fact that the EU budget 'at its current level of 1% of GNI, is not capable of closing the financial gap deriving from additional financing needs arising from the Treaty as well as from existing policy priorities and commitments'[14]. The resolution goes further, saying that freezing the next MFF at the 2013 level, as some MS demand, is not viable and that an increase of at least 5% in resources is needed. Furthermore, it challenges the Council to identify the precise priorities or projects that it proposes to drop altogether in case it doesn't agree with an increase in expenditure.

In the same resolution, the EP states that the MFF structure 'should increase the visibility of EU political and budgetary priorities', with the Europe 2020 strategy as a 'main policy reference'[15] proposing that all internal policies be grouped under one single heading, as follows:

1. Europe 2020
   1a. Knowledge for growth
   1b. Cohesion for growth and employment
   1c. Management of natural resources and sustainable development
   1d. Citizenship, freedom, security and justice
2. Global Europe
3. Administration

The CoR

One of the main priorities for the CoR in the period 2010 – 2012 is the future EU budget, in order to voice the concerns of local and regional authorities (hereafter LRAs) in the negotiations and to work closely with the institutions involved in adopting the new budgetary framework[16]. The CoR opinion of December 2011

[14] European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe*, recommendation No. 162-163.
[15] Ibidem.
[16] See: http://cor.europa.eu/en/activities/Pages/priorities.aspx

states that the level of financing proposed by the Commission is the 'absolute minimum required to deliver the ambitions of the Member States'[17] and it must be defended against any reductions during negotiations. On the proposed structure of the MFF, the CoR welcomes the renaming of headings to reflect Europe 2020 priorities, but regrets that the funds for territorial development have not all been grouped under the same heading.

It is important to underline in this subchapter that the EU institutions and MS involved in the MFF negotiations do not express their opinions in a uniform manner – some MS refer to amounts expressed in constant prices, others in real prices, some in commitments, some others in payments. This lack of coherence and consistent references adds to the complexity of the negotiations and make the positions of each stakeholder less clear.

2.2. Technical update of the MFF

The Commission
In July 2012, the Commission presented its revised proposal of the MFF, to take into account three important elements: (1) allocations for the Republic of Croatia based on the Act of Accession signed on 9 December 2011; (2) the new data for regional GDP and national GNI that have become available and (3) the most recent macroeconomic forecasts and projections. The most significant increases resulting from Croatia's accession are to be seen in the areas of cohesion and agriculture. However, the allocation for economic, social and territorial cohesion decreased overall, as the amount allocated for Croatia is 8728 million euro, while the overall amount for this policy area has increased by only 3223 million euro (in 2011 prices).

The Council
In the Council, several MS believe that the technical update presented by the Commission in fact goes beyond technical considerations and has important political implications. While MS welcome the accession of Croatia to the EU, there are voices (like those of the UK, Sweden, and Denmark) that say its entrance should have been accommodated by reprioritisation in the budget and not an increase of the overall level. The UK goes even further in saying that this amendment actually takes negotiations backwards. Several MS, irrespective of their affiliation with the Friends of Cohesion group, considers that the update has a negative impact on Cohesion Policy as it decreases its corresponding

[17] Committee of the Regions, 93rd Plenary Sessions, 14 – 15 December, *Opinion of the Committee of the Regions. The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 3.

appropriations. For instance, Italy does not agree with the update, as it considers it is not coherent with the overarching goals of the EU – growth and jobs creation.

2.3. Instruments outside the budget

The Commission proposal foresees a number of flexibility instruments, financed outside the MFF due to their special character: Emergency Aid Reserve, European Globalisation Fund, Solidarity Fund, Flexibility Instrument and Reserve for Crises in the agricultural sector. Additionally, the Commission calls for the International Thermonuclear Experimental Reactor (hereafter ITER) and Global Monitoring for Environment and Security (hereafter GMES) to be financed outside the MFF as 'their large-scale dimension, the technological challenges they imply and the fact that they do not concern only EU actors would bring uncertainties to the EU budget'[18]. The European Development Fund (hereafter EDF)[19] has a different character, being financed directly by MS and having its own financial regulation. Therefore, it is not part of the MFF.

The EP, in its resolution of June 2011, advocates for maintaining the special instruments that can be used on an ad hoc basis, simplifying their use and ensuring sufficient funds.

Among the MS, the UK is firmly opposed to keeping some expenditure outside the MFF, arguing that this affects clarity and proper financial management[20]. Generally, opinions among MS differ greatly on the topic. According to a note from the Denmark Presidency[21], some delegations call for ITER and GMES to be included in the MFF and many delegations support maintaining the EDF outside the MFF, while a group of delegations called for including all flexibility instruments in the MFF in order to ensure budgetary discipline and transparency.

The CoR does 'not believe as a principle that major areas of EU spend should be financed outside the scope of the MFF' as 'this limits the involvement of the Parliamentary democracy and harms transparency'[22]. At the same time, the CoR considers that this is an indication of the Commission's approach favouring

[18] European Commission, *European Commission proposal for the 2014 -2020 Multiannual Financial Framework. Basic guide to the multiannual financial framework*, p. 6.
[19]See: http://europa.eu/legislation_summaries/development/overseas_countries_territories/r12102_en.htm
[20] See: http://www.publications.parliament.uk/pa/ld201012/ldselect/ldeucom/297/29710.htm#note205
[21] See: http://register.consilium.europa.eu/pdf/en/12/st07/st07038.en12.pdf
[22] Committee of the Regions, 93rd Plenary Sessions, 14 – 15 December, *Opinion of the Committee of the Regions The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 11.

reactive rather than preventive measures, creating different funds for unexpected situations instead of increasing budgetary flexibility.

3. Principles governing the MFF negotiations

This subchapter presents principles that govern the negotiation process and the spending under the new budgetary framework that have been discussed most often in the negotiations so far. The principles laid out by the Commission in its proposal, i.e. the strengthened focus on key policy priorities, EU added value, impact and results and delivering mutual benefits across the EU, will not be presented here. In turn, this subchapter analyses the key principles that seem to have become points of conflict during the negotiations so far. Among those governing the negotiation process, the most important is the top-down approach. Better spending and flexibility are principles that govern spending under the MFF.

3.1. Top-down approach

During the Danish Presidency the top-down method, where the overall amounts are agreed upon first and only afterwards discussion moves to policy priorities, was adopted in negotiations. It is said to favour the standpoint of those wanting to maintain the current levels of the MFF and also to 'narrow the gap among member states' positions'[23].

Several MS, such as the Netherlands, the UK, Sweden, and Germany, have expressed their agreement with adopting this as a negotiating method as it will 'ensure a realistic and adequate spending level'[24] (the Netherlands in the GAC of 24 July 2012), in line with the current economic circumstances.

Some other MS consider that a bottom-up approach is more suitable for ensuring appropriate financing levels to achieve the Union's objectives. In a non-paper on the next MFF, published on the website of its Ministry of Foreign Affairs, Latvia expresses its preference for determining the size of the budget according to 'the actual needs of different EU policies in order to create the most value added for fostering sustainable economic development of the European Union, allowing the implementation of the Europe 2020 Strategy and keeping up with global competition'[25].

---

[23] Kölling M. and Serrano Leal C., 2012, *Austerity vs. Stimulus: the MFF 2014 – 20's Role in Stimulating Economic Growth and Job Creation*, Real InstitutoElcano [online].

[24] General Affiars Council meeting, 24 July 2012, Declaration for the Netherlands, available at: http://video.consilium.europa.eu/webcast.aspx?ticket=775-979-11734

[25] Latvian Ministry of Foreign Affairs, October 2011, *EU Multiannual Financial Framework after 2013 - Latvian non-paper* [online], available at: http://www.mfa.gov.lv/data/ANO/Fotogalerija/non_paper_mff.pdf

3.2. Better spending

Better spending has become a key issue in the negotiations. In the Council, some MS associate it with reduced spending and increasing the efficiency of funds, while others do not see why it should be in conflict with maintaining or increasing the level of expenditure, in particular with regard to cohesion funding. In addition, some consider that better spending should be based on a simplification of rules for policy conception and implementation.

Pursuing better spending should be, according to the countries in the Friends of Better Spending group, a general rule in negotiations. On the basis of this principle, they issued earlier this year a non-paper that presents seven guidelines with 'significant potential to increase the quality of spending'[26]:

- increasing the impact on growth and employment through streamlining the funds under the Common Strategic Framework;
- enforcing macroeconomic conditionalities, as 'all strands of fiscal, economic and structural policy must be harmonised'[27] ;
- introducing a Common Strategic Framework that ensures coherence and complementarity of funding;
- putting in place a reviewing process that allows for regular evaluation of progress;
- creating a reserve as an incentive for good implementation;
- national co-financing as a way of ensuring the MS and regions ownership of projects;
- making more use of EIB expertise.

In a non-paper on better spending, Germany identifies four main challenges in achieving more growth and employment through better spending and provides possible solutions. The challenges identified consist in:improving the decision-making basis for growth-oriented projects, enhancing the incentive structure within structural policy, concentrating funds on growth and creating options for intervention and allowing corrective measures. For achieving the above, the paper proposes a series of measures that have been described by some of the other MS as 'blood, sweat and tears'[28] as they are very much about eliminating special treatment for countries under strain, introducing more assessment stages for projects and

[26]See: http://www.europolitics.info/pdf/gratuit_en/313262-en.pdf
[27]Ibidem.
[28] See:http://www.euractiv.com/priorities/countries-frown-german-blood-swe-news-514667

programmes before funding begins and strengthening the powers of EU institutions in the reviewing of projects and 'freezing funds in case of non-compliance'[29].

3.3. Flexibility

The EP emphasises the need for more flexibility, both within and across headings, to be built into the budgetary framework. This would not only allow the Union to better respond to changing circumstances, but would also 'facilitate the decision-making process within the institutions'[30]. In this context, the EP underlines the fact that the special flexibility instruments are crucial and they should be maintained or possibly increased, financed appropriately and the rules for their deployment simplified. At the same time, it also underlines that flexibility should be allowed during financial years in the MFF, especially given the current macroeconomic environment.

In the Council, some MS militate for more flexibility among policies in the MFF. In the GAC of 24 July, France said that policies should not compete against one another for financing.

The CoR, in its opinion of December 2011, states that it 'regrets the absence of flexibility'[31] in the budget and that there is a need for more flexibility for moving appropriations within headings. It also argues for the creation of an EU flexibility reserve, where unused budget could be transferred instead of being paid back to MS. However, it does not agree that major areas of EU spending, such as the EDF, the EGF and the GMES programme, should be kept outside the scope of the MFF.

---

[29] Ibidem.

[30] European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.*

[31] Committee of the Regions, 93rd Plenary Sessions, 14 – 15 December, *Opinion of the Committee of the Regions The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 3.

4. Policy areas

Among the policy areas that the proposed MFF 2014 – 2020 allocates funding to, this subchapter will look at those that are both most important in terms of financial allocation and that have been most controversial in negotiations so far, i.e. economic, social and territorial cohesion, agriculture and rural development and research and innovation. Cohesion Policy, regarded as the expression of solidarity among regions, will take up 36.7%[32] of the proposed financial framework and constitutes a disputed issue within and between the institutions involved in negotiations. As for the Common Agricultural Policy (hereafter CAP), this has always triggered intense debates and the fact that it needs to be modernised has most often arisen as a conclusion. The third policy area is Research and Innovation Policy, for which the Commission proposes significant changes and an increased financial allocation.

For each of the three selected policy areas, the authors outline the most important aspects proposed by the Commission, followed by the position of the EP according to its resolution of 8 June 2011[33], and some of the stances adopted by MS in their discussions in the different meetings of the GAC. The position of the CoR, put forward in its opinions, regarding each policy, will also be summarised.

4.1. Economic, Social and Territorial Cohesion

The Commission

In its proposal for a MFF for 2014 – 2020, the Commission underlines that Cohesion Policy is more than an 'expression of solidarity with the poorer and weakest regions'[34], and that it also has an important role in raising living standards for Europeans in general, through its role in further integration of the Single Market. Among the changes it proposes, the most important include: concentration on the Europe 2020 objectives, with increased focus on results and performance; introduction of a Common Strategic Framework (hereafter CSF) to cover all funds with structural purposes and a Partnership Contract to set out the commitments of national and regional partners; new and reinforced conditionality based on results

[32] See: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/468&format=HTML&aged=1&language=EN&guiLanguage=fr

[33] See: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0266+0+DOC+XML+V0//EN

[34] European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part I*, p. 11.

and incentives – ex-ante, ex-post and macroeconomic; steps to be taken for strengthened absorption – capping rates for cohesion allocations, a temporary increase in the co-financing rates for MS under financial assistance and measures to increase administrative capacity; and concentration of the largest share of funds on the poorest regions. Initially, the Commission had proposed a budget of 376bn euro for Economic, Social and Territorial Cohesion, with an extra 40bn euro for the Connecting Europe Facility (hereafter CEF). The updated allocation, as of July 2012, is 379bn euro for Economic, Social and Territorial Cohesion.

The EP

The EP resolution of June 2011 contains the EP's formal position on the new MFF. It underlines the European Added Value of Cohesion Policy, which is 'a well-established mechanism of delivering growth and jobs'[35], and also draws attention to the fact that the policy needs a number of structural reforms in order to better respond to the main challenges the Union is currently facing.

It also stresses the potential that this policy has for achieving the objectives of the Europe 2020 Strategy and that this should be made visible in the structure of the next MFF. Regarding the funds allocated to Cohesion Policy, it states that the current level of funds 'should be at least maintained in the next period' and asks that 'unspent or decommitted resources of cohesion funds remain in the budget and not be returned to the Member States'[36].

It also finds that, in order to achieve the main objectives of the Europe 2020 strategy, the thematic concentration of cohesion policy funding and the focus on results should be reinforced. However, this should be done while taking into account region specific needs and priorities. It also stresses the 'need to improve coordination, reduce unnecessary overlaps and create greater synergies among the ERDF, the ESF, the Cohesion Fund, the EAFRD and the European Fisheries Fund (EFF)', and this is why it welcomes the introduction of the 'Common Strategic Framework setting out common investment priorities'[37].

It also calls for the simplification of cohesion policy rules and procedures and the improvement of the monitoring and evaluation systems. At the same time, the EP asks for the Commission to create an intermediary category of regions, including those regions with a GDP per capita of 75% and 90% of EU GDP, and manifests its

[35] European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.*
[36]Ibidem.
[37]Ibidem.

opposition to macroeconomic conditionality, believing this would ‘go against the very objectives that cohesion policy is set to pursue, namely the reduction of regional disparities’[38].

Regarding alternative financing options, it encourages LRAs to use financial instruments more intensively, while asking for these instruments to be simplified and also subjected to greater democratic scrutiny.

The Council

The conclusions of the 28/29 June 2012 European Council state that the reformed cohesion policy ‘offers an opportunity to invest out of the crisis as it is a major tool for investment, growth and job creation at EU level and for structural reforms at national level’[39].

The countries in the Friends of Cohesion group use the above excerpt of the European Council’s conclusions as an argument for increased funding for cohesion policy. Also, Friends of Cohesion disagree with the decrease in the allocation for cohesion resulting from the updated Commission proposal – part of Croatia’s share for cohesion policy comes from the previously proposed allocation. In the GAC meeting of July, Italy drew attention to the fact that it is a mistake to discriminate cohesion policy as opposed to other policies and Malta stated that it will be difficult to use cohesion policy to invest out of the crisis if its financial allocation is reduced.

Part of the camp of Friends of Better Spending, Germany expressed its support for introducing macroeconomic conditionality in cohesion policy.

The CoR

The CoR expresses its firm support for the CSF, but underlined that this framework should do more than create a single set of strategic guidelines, in the sense of ensuring ‘common implementation practices and procedures between funds during implementation’[40].

It strongly opposes the introduction of macroeconomic conditionality, as it would cause LRAs to lose funding due to decisions made by national governments.

[38] European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.*

[39] European Council, 29 June 2012, *European Council 28/29 June 2012 Conclusions*, p. 11.

[40] Committee of the Regions, 93rd Plenary Sessions, 14 – 15 December, *Opinion of the Committee of the Regions The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 6.

According to its opinion of May 2012, on the Proposal for a Regulation on the Cohesion Fund, the CoR agrees there is a need for introducing economic and fiscal discipline measures at EU level, but it does not believe that cohesion policy should be used ‘as a corrective mechanism for imposing stringent discipline in the EU’[41]. It adds that should macroeconomic conditionality be adopted, it should be added to all budget headings, and not only cohesion.

Regarding ex-ante conditionalities, it only supports those that ‘serve as an instrument to improve the efficiency of the programmes and assess actual technical and administrative capacity rather than the implementation of EU legislation’[42]. Also, the CoR demands for the introduction of a formal partnership agreement between each MS and the LRAs as an ex-ante conditionality so that LRAs become more involved in preparing, negotiating and implementing the various strategic documents – CSF, Partnership Contract. In its opinion on the general regulation on the funds covered by the CSF[43] the CoR underlines that LRAs should be treated differently from economic and social partners as they actually co-manage and co-fund Cohesion Policy projects.

As regards ex-post conditionalities and suspension of funds, the CoR stresses the importance of having strictly objective and measurable criteria in place, which have been agreed among national, regional and local authorities. It also believes that the framework for performance review that establishes interim objectives for 2016 and 2018 should actually ‘steer and monitor the objectives pursued throughout the planning period and not trigger the application of financial corrections to the priority axes concerned in the event of failure to achieve theobjectives set on the basis of the final progress report’[44]. It considers that failure to achieve the objectives set on the basis of the final progress report may be caused by uncontrollable factors such as unfavourable socio-economic circumstances.

The CoR firmly opposes the introduction of a 5% performance reserve, as in case the performance criteria are not met (which may be the result of objective and external reasons), the amounts in this reserve will be lost. Moreover, this

[41]Committee of the Regions, 95th plenary session, 3-4 May 2012, *Opinion of the Committee of the Regions Proposal for a Regulation on the Cohesion Fund*,CdR 7/2012 fin, p. 3.
[42]Committee of the Regions, 93rd Plenary Session, 14 – 15 December 2011, *Opinion of the Committee of the Regions The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 4.
[43] Committee of the Regions, 3 – 4 May 2012, *Opinion of the Committee of the Regions, Proposal for a General Regulation on the Funds Covered by the Common Strategic Framework*, CdR 4/2012 fin.
[44]Committee of the Regions, 3 – 4 May 2012, *Opinion of the Committee of the Regions, Proposal for a General Regulation on the Funds Covered by the Common Strategic Framework*, CdR 4/2012 fin, p. 7.

mechanism may make policy-makers set very modest, easily achievable objectives, which will affect the overall quality of projects and discourage innovation.

Regarding the issue of capping cohesion allocations, the Committee stresses that the cap must be set at a level that would allow for cohesion policy to be pursued effectively, meaning that the absorption cap should not result in a level of commitments lower than the level of actual spend.

Connecting Europe Facility

The Commission

The Commission proposes the creation of the CEF, as a way of accelerating the development of modern transport, energy and information and communication technologies (ICT) infrastructure in order to improve access to the single market. Managed centrally by the Commission, the CEF will fund 'pre-identified (…) priority infrastructures'[45] that will 'fill in the missing links in Europe's energy, transport and digital backbone'[46], at the same time contributing to achieving sustainable growth and jobs. For this initiative as well, attracting additional public and private financing is very important, and the extensive use of financial instruments developed in collaboration with the EIB is being promoted. The Commission particularly advances the use of project bonds to finance such infrastructure projects. According to the Commission Staff Working Paper on A Budget for 2020, the EU and EIB would not issue project bonds themselves, but 'would jointly provide guarantees or loans to the special vehicle set up by public or private partners to carry out an investment'[47].

The financial allocation for the CEF rises to 50bn euro, 40bn euro plus 10bn ring fenced for transport investments from the Cohesion Fund.

The EP

In its resolution of June 2011, the EP had identified the need for investment in transport and energy infrastructures and highlighted that the Commission should 'develop an incentive regulatory framework in order to promote public and private

[45] European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part I*, p. 14.

[46] European Commission – Press Release, 19/10/2011, *Connecting Europe Facility: Commission adopts plan for €50 billion boost to European networks*, p. 1.

[47] European Commission, 29.06.2011, *Commission Staff Working Paper A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues*, SEC(2011) 868 final, p. 15.

long term investment in these fields'[48]. It also underlined the need to further develop innovative financial instruments that would help secure investment.

The Council

In the Transport and Telecommunication Council meeting of 7 June 2012, a partial general agreement was reached on the CEF. According to an article by Europolitics, 'the agreement is 'partial' because it does not include the financial resources to be allocated to the facility'[49]. In an issue paper preceding the informal GAC meeting on 30 August, the Cyprus Presidency has stated that while it acknowledges the importance of the CEF, it has come out from the bilateral negotiations it conducted with MS 'that the telecommunications part has received less support by Member States than transport and energy and considers that the size and relative weight given to the three strands of the Connecting Europe Facility, as well as the scope of the proposed transfer of 10 billion euro from the Cohesion Fund, need to be reconsidered'[50].

The CoR

The CoR recognises the added value of removing bottlenecks on transport, energy and ICT infrastructures, but it underlines the need for 'significant involvement of local and regional authorities in the supervision and management of such infrastructure projects'[51]. Also, in its opinion on the CEF, the CoR expressed its agreement with the level of funding foreseen for this instrument, but warned 'against any attempt that could be to the detriment of the Structural Funds'[52].

Regarding the introduction of project bonds, the CoR supports their use in funding infrastructure projects and 'recalls that such bonds can have a highly beneficial leverage effect on the EU budget'[53].

---

[48] European Parliament, 8 June 2011, *European Parliament Resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe (2010/2200(INI))*

[49] Smets, I., 07 June 2012, *Ministers set rules for co-financing of trans-European networks*, Europolitics [online]

[50] Presidency of the Council of the European Union, 20 August 2012, *Presidency Issues Paper Multiannual Financial Framework 2014 -2020, Informal Meeting of Ministers and Secretaries of State for European Affairs, Nicosia, 30 August 2012*, p. 3 – 4.

[51] Committee of the Regions, 93rd Plenary Session, 14 – 15 December 2011, *Opinion of the Committee of the Regions. The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 7.

[52] Committee of the Regions, 96th plenary session, 18-19 July 2012, *Opinion of the Committee of the Regions Connecting Europe Facility*, CdR 648/2012 fin, p. 4.

[53] Committee of the Regions, 93rd Plenary Session, 14 – 15 December 2011, *Opinion of the Committee of the Regions. The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 7.

4.2. Agriculture and rural development

The Commission calls the CAP 'one of the few truly EU common policies'[54] and proposes for changes to the next programming period that will 'bring it more fully inside the Europe 2020 strategy'[55] and will refocus it on its core and new activities.

The main innovations proposed include: greening direct payments in order to ensure achievement of environmental and climate action objectives; ensuring a convergence of payments for a more equal distribution of direct support; and capping the level of direct payments by limiting the basic layer of direct income support that large agricultural holdings receive. The Commission summarises these changes by saying that the future 'CAP will therefore contain a greener and more equitable distributed first pillar and a second pillar that is more focussed on competitiveness and innovation, climate change and the environment'[56]. Additionally, it proposes the creation of two instruments outside the MFF so that the European agriculture is better equipped to react to unforeseeable circumstances and adapt to international trade agreements.

The financial allocations proposed originally were 281.8bn euro for Pillar I and 89.9bn euro for rural development. 15.2bn euro were taken out of Heading 2 and distributed among research and innovation on food security, the bio-economy and sustainable agriculture (4.5bn euro), food safety under Heading 3 (2.2bn euro), food support for most deprived persons in Heading 1 (2.5bn euro), a new reserve for crises in the agriculture sector (3.5bn euro) and the European Globalisation Fund (2.5bn euro).

The revised allocation for Heading 2 'Sustainable growth: natural resources' is 386bn euro, with 283bn euro for market related expenditure and direct payments, as compared to 382.9bn euro and 281.8bn euro.

The EP

In its resolution of June 2011, the EP stated that the CAP should focus more on achieving the targets of the Europe 2020 strategy and called for the Commission to propose a more efficient and effective allocation and use of the CAP budget. Under this falls a fairer distribution of direct payments among MS, regions and farmers.

[54] European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020*, p. 15.
[55] Ibidem.
[56] Idem, p. 16.

It also underlined that the EU has to stop using export subsidies for agricultural products and 'continue to coordinate efforts with the world's major agriculture products to cut trade distortion subsidies'[57]. It asserted that the financial allocation for the CAP in the next financial framework should be at least at the level of the budget year 2013.

Regarding the EAFRD, it called for a better coordination with the cohesion and structural funds in order to strengthen the territorial approach.

The Council

The CAP was discussed in the GAC of 15 November 2011. MS are divided in their opinions on this policy. While Greece started its intervention saying that the CAP is an important pillar in times of crises and it would like to see it being consolidated, politically and financially, Sweden said that substantial cuts and more market oriented reforms are needed.

The Commission proposed the creation of 'a more equitable distribution of direct support'[58] in order to close the gap in direct payments per hectare among MS. Greece stated that the change in direct payments should be implemented gradually, so as to avoid any negative effects of regions, while Estonia asserted that convergence in direct payments should be achieved faster, without raising the overall level of pillar 1. Portugal expressed its opinion that a fairer payment system is crucial, but that the level of convergence proposed is insufficient. At the same time, Germany said it considers it difficult to achieve convergence in direct payments and that these should rather be based on strict conditionality. It added that payment of EU subsidies should be linked to MS fulfilling objectives under the growth and competitiveness pact. Slovakia expressed its support for the proposed initiative to make distribution of direct payments more equitable, but said that while the Commission's proposal to reduce disparities in direct payment per hectare is a step in the right direction, a much faster reduction of disparities is needed. Sweden argued that direct support should be phased out in time and Denmark said it should be scaled down. The UK stated that pillar 1 of the CAP needs to be significantly reduced, together with trade barriers and market support.

[57] European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.*

[58] European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part II: Policy fiches*, p. 4.

Regarding the greening of direct payments, opinions vary from one MS to another. Greece supports the endeavour, but finds that a more effective and simplified implementation system needs to be put in place and that making 30% of direct payments conditional on greening might be too high a percentage. Slovakia, Spain and Cyprus also stated that a 30% greening of direct payments goes too far, while Ireland expressed its belief that the Commission's objectives could be achieved in a simpler fashion. At the same time, Sweden doubted that this measure will have any clear environmental effects and Belgium stated that the proposals are complex and costly with 'no guarantees in terms of impact on the environment'. Slovenia welcomed the greening of direct payments as long as it is done efficiently and according to specific conditions in each MS. Meanwhile, Italy expressed its concern that the measure will increase the workload not only of farmers, but also of MS. Austria asked for greater continuity in the distribution of resources to MS for rural development, while also underlining that the contribution of rural development to attaining the objectives of Europe 2020 strategy is particularly important to Austria.

As for pillar 2 of the CAP, Greece said its present status and financing should be maintained, while Belgium expressed its belief that the convergence and greater balance should be a target for pillar 2 as well. Cyprus expressed its support for the Commission's proposal on rural development, while Denmark said its does not go far enough and that expenditure for agriculture and rural development need to be reduced.

The CoR

The CoR states in its opinion of the reform of the CAP that the Commission proposed allocation should be maintained in real terms, given the 'major challenges facing the agri-food sector in coming years'. It welcomes the commitment to greening the CAP and asks for the 'introduction of clear, compulsory and explicit criteria for the beneficiaries concerning soil protection and efficient use of groundwater, as well as steps towards the abolition of all environmentally harmful subsidies'.

The CoR also agrees with the proposals regarding the convergence of payments and capping of direct payments. However, it finds that the creation of a new reserve for crises in the agricultural sector and the enlargement of the Globalisation Adjustment Fund's scope is a sign of the 'Commission's preference for reactive rather than preventive measures'. At the same time, it regrets that the proposed budget for rural development remains considerably lower than that for direct payments. It welcomes, however, the stronger link of the EAFRD with the other territorial funds under the CSF.

4.3. Research and innovation

The Commission

In its proposal for a budget for Europe 2020, the Commission underlines that even though the EU is a 'global leader in many technologies'[59], it has to take into account the increasing challenges coming not only from traditional competitors, but also from emerging economies.

The main challenge it identifies is 'to promote investment in research and development across the EU, so that the headline Europe 2020 target of 3% of GDP of investment is reached'[60]. For this, a concerted effort from the public authorities, the private sector and the research community is required. The Commission proposes three main areas for the future research and innovation funding: excellence in science base, tackling societal changes and creating industrial leadership and boosting competitiveness. A significant change proposed is the creation of a common strategic framework – called Horizon 2020 – that would 'eliminate fragmentation and ensure more coherence'[61]. This will bring together the three main funding schemes for research and development: competitiveness and innovation programme, seventh framework programme and the European Institute for Innovation and Technology. In addition, the funding schemes for research and innovation would be standardised and simplified and a single set of rules will be drawn up for participation, audit, support structures, dissemination of results and reimbursement.[62]

The Commission also proposes a new approach to funding that will imply using innovative financial instruments to a greater extent.

The financial allocation put forward by the Commission in June 2011 was 80bn euro for the Common Strategic Framework for Research and Innovation, complemented by support from the Structural Funds. This represents a considerable increase, especially when looking at the MFF 2007 – 2013 where this Research and

---

[59] European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part I*, p. 10.
[60] Ibidem.
[61] Ibidem.
[62] See: http://ec.europa.eu/budget/library/biblio/publications/2011/mff2011/MFF_2011_en.pdf

Innovation was financed within sub-heading 1a, Competitiveness for growth and employment that represented 9% of the total budget[63].

The EP

In its resolution of June 2011, the EP highlighted the relevance of research and innovation in the EU's endeavour to become a sustainable, world-leading, knowledge-based economy. It also underlined that the MFF should concentrate more funding on research and innovation as it has great potential for stimulating economic growth and competitiveness. It expressed its conviction that pooling national research and innovation expenditures in the EU budget brings significant added value, through reaching the necessary critical mass and economies of scale, improving impact and reducing overlapping and wasting scarce resources[64].

The EP called for the EU institutions and MS 'to agree without further delay on a specific roadmap for achieving'[65] the Europe 2020 target of 3% of GDP expenditure on R&D, stressing that a combined effort from the public and the private sectors is necessary for this to happen. It expressed its belief that public funding for R&D has to be increased, not least in order to leverage private investment, and it highlighted the 'catalytic role that cohesion policy has played in the current programming period in increasing R&D investment'[66]. It emphasised that the increase in funds needs to be accompanied by a 'radical simplification of funding procedures'[67]; that innovative European companies need not only subsidies but better regulation, better links to research and better and more diverse access to finance. Regarding better and more diverse sources of financing, it underlined the role of the European Investment Bank (hereafter EIB) and the European Investment Fund (hereafter EIF) and the usefulness of permanent risk sharing instruments, such as the Risk Sharing Financial Facility (hereafter RSFF).

The Council

In February 2012 the Danish Presidency organised an informal meeting of the Competitiveness Council that focused on three issues related to Horizon 2020 – complementarities with other EU programmes, in particular Cohesion Policy funds; simplification; and importance of bridging research and innovation[68]. Regarding the

[63]See:http://ec.europa.eu/budget/explained/budg_system/fin_fwk0713/fin_fwk0713_en.cfm

[64]European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.*

[65]Ibidem.

[66]Ibidem.

[67]Ibidem.

[68]Council of the European Union, 10 February 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Preparation of the Council ("Competitiveness") of 20-21 February 2012.*

first issues, the role of national smart specialisation strategies on creating stairways to excellence was highlighted, as was the importance of ‘ensuring complementarities in the actual design and implementation of the two programmes’[69]. Regarding the issue of simplification, the conclusion was that considerable progress has been achieved with the new structure of Horizon 2020. Based on the discussions in this informal meeting, the Presidency noted that the Commission’s proposal constitutes a good basis for further negotiations. The Presidency also noted that Horizon 2020 is clearly facilitating a new and much stronger link between research and innovation and it is aiming at achieving Europe 2020 strategy’s objective by focusing on ‘creating a more accessible and SME-friendly research and innovation environment’[70]. At the Competitiveness Council on 30-31 May 2012, a partial general approach[71] was reached on Horizon 2020. The press release from this Council meeting notes that Horizon 2020, as compared with FP7, has several features that recommend it for the purpose of promoting growth and tackling societal challenges, like simplification through a simpler programme architecture; a single set of rules and less red tape; an inclusive approach open to new participants; integration of research and innovation by providing continuous and coherent funding from idea to market and more support for innovation and activities close to the market with a strong focus on creating business opportunities.

The CoR

The CoR welcomes the significant increase in the proposed allocation for research and innovation, which makes the EU more likely to meet its Europe 2020 3% target. Nonetheless, it sees this new level as the ‘bare minimum needed with respect to its role in implementing Europe 2020 strategy and other Union policies’[72]. It supports the creation of Horizon 2020 as a means to simplify and consolidate the different funding programmes, but draws attention to the fact that Horizon 2020 should be well coordinated with the CSF for territorial funds, in order to ‘increase synergy and (…) contribute to strengthening the knowledge base in all regions’[73].

---

[69]Council of the European Union, 10 February 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Preparation of the Council ("Competitiveness") of 20-21 February 2012.*

[70]See: http://register.consilium.europa.eu/pdf/en/12/st06/st06281.en12.pdf

[71]A partial general approach is an agreement on the essential elements of a legal act, pending the opinion of the European Parliament and the relevant discussions on the EU's multi-annual budget. See: http://www.consilium.europa.eu/special-reports/mff/glossary

[72]Committee of the Regions, 96th plenary session, 18-19 July 2012, *Opinion of the Committee of the Regions, Horizon 2020(the framework programme for research and innovation)*, CdR 402/2011 fin, p. 2.

[73]Committee of the Regions, 95th plenary session, 3-4 May 2012, *Opinion of the Committee of the Regions,Proposal for a Regulation on the ERDF*, CdR 5/2012 fin, p. 6.

5. Financing the EU budget

The Commission

In its communication on the EU Budget Review in June 2011, the Commission has re-launched the debate on the introduction of an EU tax by setting out a non-exhaustive list of possible financing means that could gradually replace the contributions of national treasuries. The question of reforming the financing of EU budget by introducing 'real' own resources is not new and has always been controversial[74]. But the topic has recently gained increased attention due to the complexity of MS' contributions and the current climate of national austerity and budget consolidation reinforcing the 'I want my money back' attitude adopted by most of the net contributors. Although the Treaty of Rome already stated that the financial contributions of MS should be replaced by the Community's own resources[75], Article 311 of the Treaty on the Functioning of the European Union (hereafter TFEU)reiterates this statement, stipulates that 'without prejudice to other revenue, the budget shall be financed wholly from own resources' and adds that the Council 'may establish new categories of own resources or abolish an existing category'[76]. Against this background, the Commission has carried out extensive analysis of the different options that could provide the EU with new own resources in view to have a more autonomous and transparent EU budget and reduce national contributions. Nowadays, 85% of EU financing is based on statistical aggregates derived from Gross National Income (GNI) and value added tax (hereafter VAT) and perceived as national contributions by MS[77].

In the amended proposal for a Council decision on the system of own resources of the European Union[78], the Commission suggests to introduce two new own resources – a resource based on the financial transaction tax (hereafter FTT) and a new VAT own resource, that would replace the existing complex VAT-based own resource and reduce the scale of the GNI-based resource.

[74]See: Molino, E. and Zuleeg F., 2011, The Impact of New EU Own Resources on Regional and Local Governments, p. 6.

[75] ***, 25 March 1957, *The Treaty of Rome*, Part Five Institutions of the Community, Title II Financial Provisions, Article 201, p. 62.

[76] Official Journal of the European Union, 30.3.2010, *Consolidated Version of the Treaty on the Functioning of the European Union*, Title II Financial Provisions, Chapter 1 The Union's Own Resources, Article 311, (ex. Article 269 TEC).

[77]European Commission, 29.06.2011, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part I*, COM (2011) 500final, p. 7.

[78] European Commission, 9.11.2011, *Amended proposal for a COUNCIL DECISION on the system of own resources of the European Union (//EC, Euratom)*, COM(2011) 739 final.

Regarding the VAT own resource, last year the Commission presented three proposals[79]. In these documents, the Commission suggests to abolish the current VAT mechanism as of 31 December 2013 and to replace it by a new EU VAT resource based on a simplified and more transparent calculation method. That, however, does not mean the creation of a new pan-European VAT. In the Commission's proposals, the new EU VAT resource shall not exceed 2% of the standard rate of VAT in every MS and the applicable shares and rates for the VAT own resources are set out at 1% of the net value of goods and services subject to a standard VAT in all MS.

With regard to the FTT, the Commission has proposed a Council Directive on a common system of FTT on 28 September 2011[80] and a Council regulation on making the own resource based on the FTT available to the EU budget[81]. According to the Directive, the use of the FTT as an own resource should start as of 1 January 2014.

The EP

As expressed in its resolution on the MFF and own resources of 13 June 2012, the EP has repeatedly called for the creation of new and genuine own resources and is not prepared to give its consent to the next MFF regulation without political agreement on reform of the own resources system[82]. Therefore, it welcomes the legislative proposals of the Commission regarding both the new EU VAT resource and the FTT directives. However, the EP calls for the Commission to carry out an impact assessment to explore the administrative costs for LRAs arising from the implementation of the FTT directive and some members of the EP regret that the EU VAT own resource will be collected by national administrations instead of being accrued directly to the EU budget[83].

---

[79] European Commission, 9.11.2011, *Proposal for a COUNCIL REGULATION on the methods and procedure for making available the own resource based on the value added tax*, COM(2011) 737 final
European Commission, 9.11.2011, *Amended proposal for a COUNCIL DECISION on the system of own resources of the European Union (//EC, Euratom)*, COM(2011) 739 final
European Commission, 6.12.2011, *Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, on the future of VAT Towards a simpler, more robust and efficient system tailored to the single market*, COM(2011) 851 final

[80] European Commission, 28.09.2011, *Proposal for a COUNCIL DIRECTIVE on a common system of financial transaction tax and amending Directive 2008/7/EC,* COM(2011) 594 final

[81] European Commission, 9.11.2011, *Proposal for a COUNCIL REGULATION on the methods and procedure for making available the own resource based on the financial transaction tax*, COM(2011) 738 final

[82] European Parliament, 13 June 2012, *European Parliament resolution on the Multiannual Financial Framework and own resources*

[83] European Parliament, 19 June 2012, *Working document on own resource based on the added value tax*

The Council

There is a broad consensus in the Council that the current VAT own resource needs to be reformed. However, while a majority of MS is in favour of bringing an end to the current system, there are significant divisions over plans to create new own resources. Countries like Italy and France are very much pushing for the introduction of new own resources and support the Commission's proposal; other countries adopt a more careful position and ask for additional information with regard to the impact of new resources on their net contributions. Also, there are some MS, such as Germany, that seem to be in favour of abolishing the current VAT without replacing it by a new own resource. Therefore, even if Germany insists on the introduction of the FTT, it wants to keep the revenue in the national budgets. Other countries like the UK are against the imposition of the tax at all. Several member states, however, are discussing the opportunity to push forward the FTT proposalwithin a Strengthened Cooperation framework, as declared during the European Council of 28/29 June 2012.[84] Those countries will consequently reduce their GNI–based transfers to the EU accordingly with the resources provided with the FTT.[85]

The CoR

While recalling Article 311 of the TFEU, the CoR has expressed its support for the Commission's proposals to establish new own resources in several opinions. It considers the creation of a new VAT resource necessary, encourages the introduction of a Europe-wide FTT and believes that any new systems to finance the Union's budget are welcome as long as they 'guarantee the principles of fairness, economic stability, solidarity, transparency and simplicity and apply to all MS'[86]. However, the CoR also insists on the necessity to carry out solid impact and feasibility assessment before the agreement of any new own resources and recalls that 'any new source of revenue must be a stable source of income and not be subject to unpredictable changes'[87]. Also, it draws attention to the fact that own resources have different territorial impacts and to the need for involving local and regional authorities (LRAs) in the decision.

[84]European Council, 29 June 2012, *European Council 28/29 June 2012 Conclusions*, p.13

[85]European Commission, 25 July 2012, *non-paper-Financial Transaction Tax under enhanced cooperation as a base for Own Resources*, p.2.

[86]Committee of the Regions, 93rd Plenary Session, 14 – 15 December 2011, *Opinion of the Committee of the Regions. The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin, p. 12

[87] Official Journal of the European Union, 07.06.2011, *Opinion of the Committee of the Regions on 'The EU budget review'*, p.9

6. Technical aspects

Some technical aspects are posing difficulties in negotiations, as they are sensitive issues which the different actors disagree on, or are expected to pose difficulties in the next stages of negotiations. These include the issue of outstanding commitments, the correction mechanisms and the use of financial instruments.

6.1. Outstanding commitments (reste à liquider)

The outstanding commitments, more commonly known as reste à liquider or RAL, represent the amount of committed appropriations that have not been paid, where commitments are legal pledges to provide finance and payments are actual transfers to beneficiaries. Outstanding commitments stem from the very nature of multiannual policies and programmes and are expected to increase towards the end of the MFF. The level of commitments that have not been paid can only be decreased either by increasing the payment level or by decommitment.

The EP

The working document on outstanding commitments (RAL) and the payments issue by the EP Committee on Budgets reads that 'It is crucial to honour the commitments made in the past, which were unanimously accepted by all Member States. By failing to do so, the EU will put its credibility at risk'[88]. In the past decades, the level of unpaid commitments has been increasing, which translates into a growing liability on the EU budget. The two biggest contributors to the overall level of outstanding commitments are cohesion policy and rural development[89].

In its resolution of 8 June 2011, the EP underlined the need to address the growing level of RAL and expressed its disagreement with the Council 'to decide on the level of payments a priori, without taking into account an accurate assessment of the actual needs'[90]. It binds itself to make efforts throughout the MFF negotiations to reduce the difference between commitment and payments appropriations by increasing the level of payments.

[88]European Parliament, Committee on Budgets, 25.05.2012, *Working Document on outstanding commitments (RAL) and the payments issue*, p. 2.
[89]Ibidem.
[90] European Parliament, 8 June 2011, *European Parliament Resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe* (2010/2200(INI))

The Council
In the Council discussions, the topic of outstanding commitments is touched upon. In the GAC meeting of 24 July, Greece said that this is an issue that should be dealt with during the discussions on annual budgets, while Germany called for a sustainable solution on this. The Council is concerned with the high overall level of the RAL which has reached 207 million euro at the end of 2011[91] and underlines that it is important that the relation between commitment and payment appropriations be 'weighed against the absorption capacity and the need for budgetary discipline'[92].

6.2. Correction mechanisms

The Commission
The Commission proposes to simplify the current arrangements, by replacing the existing system with one based on lump sum reductions to MS's GNI-based contributions. The proposal for the Commission is said to have the advantages of being fair, simple and transparent and corresponds to the MFF in duration[93].

The table below presents the Commission's proposal:

Table 1: Lump sums adjusted for relative prosperity[94]

Member State	Annual lump sum 2014 – 2020 (mln euro, current prices)
Germany	2.500
Netherlands	1.050
Sweden	350
United Kingdom	3.600
Total	7.500

Source: http://ec.europa.eu/budget/library/biblio/publications/2011/mff2011/MFF_2011_en.pdf

The EP
The EP called, in its resolution of June 2011, for an end to the existing 'rebates, exceptions and correction mechanisms' as a way to achieve 'an autonomous, fairer, more transparent, simpler and equitable financing system'[95].

[91] See: http://www.europolitics.info/institutions/council-ready-to-fight-over-both-commitments-and-payments-art326363-37.html
[92] Council of the European Union, 3148th Economic and Financial Affairs Council meeting Brussels, 21 February 2012, *Council conclusions on the budget guidelines for 2013* [online].
[93] Janusz Lewandowski, Thursday 22 March 2012, *New Own Resources and Corrections*, 2nd high-level Conference with national parliamentarians co-sponsored by the European Parliament, the Danish Presidency of the Council and the European Commission Brussels.
[94] European Commission, *European Commission proposal for the 2014 -2020 Multiannual Financial Framework. Basic guide to the multiannual financial framework* [online], p. 14.

The Council

In the bilateral consultations with the Cyprus Presidency during July 2012, some MS said that they 'would prefer to see no rebates at all'[96], but as it might be difficult to eliminate them, at least in the next MFF, some, even among those benefitting from rebates, would support the Commission's proposal. However, some MS insisted 'that if current correction mechanisms are kept, their own country should also benefit from one'[97].

The CoR

The CoR supports the announced simplification of the rebates system and the fact that this will be limited in time. The CoR sees this as a complex matter and believes that, in order to allow a proper revision of the system, there is a need for a discussion on the 'underlying and legitimate reasons for those corrective mechanisms'.

6.3. Financial instruments

The Commission

The Commission promotes the use of financial instruments as a way to attract additional public and private investment to complement the funds allocated from the EU budget. It is optimistic about its collaboration with the EIB and other public financial institutions and hopeful that financial instruments can also 'contribute to the overall development of post-crisis financial markets'[98]. The intention is that strategic projects be funded 'in partnership with the private and banking sectors (…) but also with other partners including development banks in Member States and the European Bank for Reconstruction and Development (EBRD)'[99].

---

[95]See:http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0266+0+DOC+XML+V0//EN

[96]Presidency of the Council of the European Union, 20 August 2012, *Presidency Issues Paper Multiannual Financial Framework 2014 -2020, Informal Meeting of Ministers and Secretaries of State for European Affairs, Nicosia, 30 August 2012*, p. 2.

[97]Ibidem.

[98]European Commission, 29.06.2011, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part I*, COM(2011)500final, p. 9.

[99] European Commission, 19.10.2010, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the National Parliaments the EU Budget Review*, COM(2010) 700 final, p. 20.

The EP

The EP acknowledges the overall success in using financial instruments to achieve particular policy objectives and believes that efforts should be made to 'enhance the use of the EU funds as a catalyst for attracting additional financing from the EIB, EBRD, other international financial institutions and the private sector'[100]. It calls on the Commission to 'ensure utmost transparency, accountability and democratic scrutiny for innovative financial instruments'[101] and 'encourages local and regional authorities to make as much use as possible of the innovative financial instruments, inter alia, revolving funds for energy efficiency measures'[102].

The Council

The Cyprus Council Presidency underlined in an issues paper that the efforts made for 'improving the quality of spending of the Union's funds need to include, inter alia, (…) an appropriate use of financial instruments.'[103]

The CoR

The CoR welcomes the simplification of the use of financial instruments and supports the development of partnerships among the Commission, EIB and other international financial institutions. In its various opinions related to the MFF 2014 – 2020 or the new legislative package for Cohesion Policy, the CoR underlines the importance of using innovative financial instruments to complement EU funding for various EU funds, programmes and projects like Cohesion Fund, ESF, LIFE+ programme, Justice and Citizenship. However, the CoR favours 'conventional forms of financial instruments (equity participations, loans, guarantees), and not to opaque financial instruments such as derivatives or structured financial instruments'[104].

---

[100] European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.*

[101]Ibidem.

[102]Ibidem.

[103]Presidency of the Council of the European Union, 20 August 2012, *Presidency Issues Paper Multiannual Financial Framework 2014 -2020, Informal Meeting of Ministers and Secretaries of State for European Affairs, Nicosia, 30 August 2012*, p. 3.

[104] Committee of the Regions, 95th plenary session, 3 – 4 May 2012, *Opinion of the Committee of the Regions, Proposal for a General Regulation on the Funds Covered by the Common Strategic Framework*, CdR 4/2012 fin, p. 10.

II. Proposals of budget figures for the negotiating box

The second section of this note focuses on the budget figures of the next MFF and illustrates how different scenarios could result from the negotiations. While the amended proposal of the Commission estimates an overall ceiling of 1.033 billion in commitments, i.e. 1.08% of EU GNI, this section suggests exploring how the budget figures of the MFF's main headings would look like under both a pessimistic and optimistic scenario.

While this paper estimates a pessimistic scenario at 1.00% of EU GNI, an amount that reflects the request of most members of the Friends of the Better Spending group, the optimistic scenario is based on a ceiling of 1.1 % of EU GNI. This amount is to be considered as an ideal scenario as the CoR has already indicated that at 1025bn EUR or 1.05% EU GNI the proposal of the Commission will barely allow the EU to achieve the objectives of Europe 2020. This optimistic scenario is even below the request made by the EP indicating that at least a 5% increase of resources compared to the 2013 level (1.06% of EU GNI) is needed for the next MFF. This 5% increase would correspond to 1.113% of EU GNI.[105]

Below are 3 tables presenting the amended proposal of the Commission (table 1), the pessimistic scenario (table 2) as well as the optimistic scenario (table 3), with corresponding figures for the five headings of the MFF. The two scenarios illustrate a pro-rata decrease and increase of the Commission's baseline. The tables show that while all budget headings would benefit from an increase under the optimistic scenario, the pessimistic scenario would have to entail severe cuts in different headings. Indeed, it is clear that cutting administrative costs or even spending in research and innovation will not suffice to reach the 1% ceiling. The pessimistic scenario will therefore fall short of the CoR's expectations as the largest items of the MFF, i.e. the CAP and cohesion policy, will also have to undergo significant budget cuts.

In addition, there is a fourth table that indicates the ideal amounts of headings or programmes requested by the CoR in its diverse opinions. However, it is important to recall that the CoR has not given its opinion on all budget lines or has sometimes

[105]One could argue that the 5% increase in resources is partially matched by the Commission's proposal if spending and investments realised outside the MFF are taken into account. However, the EP calls for an increase of the MFF of 5% before taking into account spending outside the MFF. The European Commission proposal is therefore still below the overall budget envisaged by the EP which is composed by a MFF of 1,11% of European GNI *plus* other spending and investments outside the MFF.

expressed only its agreement or disagreement with the Commission's proposal without suggesting any figures. In such cases where concrete information is missing, it is impossible to translate the political position of the CoR into budget figures. Therefore, table 4 limits itself to present budget figures for headings or programmes the CoR has expressed an opinion on.

This last table illustrates, to some extent, the current state of the interinstitutional negotiations on the next MFF. While the political stances of the different institutions and MS involved in the negotiations are widelyknown, few of them translate their views into concrete figures. The current debate is therefore characterised by significant uncertainties with regard to policy areas which institutions would be ready to cut in the event of a 'pessimistic' scenario. Therefore, while some progress has been made in the negotiations, a number of key issues, in particular with regard to budget figures, are still open and will need to be debated in a clear manner in order to allow the different blocks of the MFF to be adopted in 2013.

Table 2: The updated proposal of the Commission on the next MFF 2014-2020 (1.08% of EU GNI) in EUR bn

COMMITMENT APPROPRIATIONS (in 2011 prices)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total 2014-20**
HEADING 1: Smart and Inclusive Growth	64.769	67.015	68.853	70.745	72.316	74.386	76.679	494.763
of which Economic, social and territorial cohesion	50.464	51.897	53.177	54;307	55.423	56;474	57.501	379.243
HEADING 2: Sustainable Growth : Natural Resources	57.845	57.005	56.190	55.357	54.357	53.371	52.348	386.473
of which Market related expenditure and direct payments	42.363	41.756	41.178	40.582	39.810	39.052	38.309	283.050
HEADING 3: Security and citizenship	2.620	2.601	2.640	2.679	2.718	2.757	2.794	18.809
HEADING 4: Global Europe	9.400	9.645	9.845	9.960	10.150	10.380	10.620	70.000
HEADING 5: Administration	8.622	8.755	8.872	9.019	9.149	9.301	9.447	63.165
of which Administrative expenditures of the institutions	7.047	7.115	7.184	7.267	7.364	7.461	7.561	50.999
HEADING 6 : Compensation	27	0	0	0	0	0	0	27
TOTAL COMMITMENT APPROPRIATIONS	**143.283**	**145.021**	**146.400**	**147.760**	**148.690**	**150.195**	**151.888**	**1.033.237**
as a percentage of GNI	1.10	1.09	1.08	1.08	1.07	1.06	1.06	1.08

Source: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/754&format=HTML&aged=0&language=en&guiLanguage=en

Table 3: The next MFF 2014-2020 under pessimistic scenario (1.00% of EU GNI) in EUR bn

COMMITMENT APPROPRIATIONS (in 2011 prices)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total 2014-20**
HEADING 1 : Smart and Inclusive Growth	59.971	62.051	63.753	65.505	66.959	68.876	70.999	458.114
of which Economic, social and territorial cohesion	46.726	48.053	49.238	50.284	51.318	52.291	53.242	351.151
HEADING 2 : Sustainable Growth : Natural Resources	53.560	52.782	52.028	51.256	50.331	49.418	48.470	357.845
of which Market related expenditure and direct payments	39.225	38.663	38.128	37.576	36.861	36.159	35.471	262.083
HEADING 3 : Security and citizenship	2.426	2.408	2.444	2.481	2.517	2.553	2.587	17.416
HEADING 4 : Global Europe	8.704	8.931	9.116	9.222	9.398	9.611	9.833	64.815
HEADING 5 : Administration	7.983	8.106	8.215	8.351	8.471	8.612	8.747	58.486
of which Administrative expenditures of the institutions	6.525	6.588	6.652	6.729	6.819	6.908	7.001	47.221
HEADING 6 : Compensation	25	0	0	0	0	0	0	25
TOTAL COMMITMENT APPROPRIATIONS	**132.669**	**134.279**	**135.556**	**136.815**	**137.676**	**139.069**	**140.637**	**956.701**
as a percentage of GNI								1.00

Source: own calculations

Table 4: The next MFF 2014-2020 under optimistic scenario (1.10% of EU GNI) in EUR bn.

COMMITMENT APPROPRIATIONS (in 2011 prices)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total 2014-20**
HEADING 1 : Smart and Inclusive Growth	65.968	68.256	70.128	72.055	73.655	75.764	78.099	503.925
of which Economic, social and territorial cohesion	51.399	52.858	54.162	55.313	56.449	57.520	58.566	386.266
HEADING 2 : Sustainable Growth : Natural Resources	58.916	58.061	57.231	56.382	55.364	54.359	53.317	393.630
of which Market related expenditure and direct payments	43.148	42.529	41.941	41.334	40.547	39.775	39.018	288.292
HEADING 3 : Security and citizenship	2.669	2649	2.689	2.729	2.768	2.808	2.846	19.157
HEADING 4 : Global Europe	9.574	9.824	10.027	10.144	10.338	10.572	10.817	71.296
HEADING 5 : Administration	8.782	8.917	9.036	9.186	9.318	9.473	9.622	64.335
of which Administrative expenditures of the institutions	7.178	7.247	7.317	7.402	7.500	7.599	7.701	51.943
HEADING 6 : Compensation	28	0	0	0	0	0	0	28
TOTAL COMMITMENT APPROPRIATIONS	**145.936**	**147.707**	**149.111**	**150.496**	**151.444**	**152.976**	**154.701**	**1.052.371**
as a percentage of GNI								1.10

Source: own calculations

Table 5: Ideal figures according to the CoR, in EUR bn

COMMITMENT APPROPRIATIONS	Total 2014-20
HEADING 1 : Smart and Inclusive Growth of which	No proposed figure
CSF Research and Innovation[106]	80.000
Structural Funds[107]	398.590
of which European Territorial Cooperation[108]	13.000
Connecting Europe Facility[109]	50.000
-of which from the newly established Connecting Europe Facility	40.000
-of which from the Cohesion Fund	10.000
Single Education, Training, Youth and Sport[110]	15.210
HEADING 2 : Sustainable Growth : Natural Resources of which	No proposed figure
CAP[111]	No proposed figure
Rural Development[112]	No proposed figure
Life + programme[113]	3.200

[106] In its Opinion on The new multiannual financial framework post-2013, the CoR expresses its support to 'the significant boost to research and innovation proposed under the MFF (up from EUR 53bn to EUR 80bn)' (p.7).

[107] In its Opinion on The new multiannual financial framework post-2013, the CoR 'notes that the amounts proposed for the Structural Funds (EUR 336bn for ERDF, ESF, and Cohesion Fund, but excluding "Connecting Europe") are 3% less than in the current round which allocates EUR 347bn'. The CoR adds that 'the aim should be to provide financing for Structural Fund programmes which is at least constant in real terms with the current round' (p.5). If one estimates that 347bn are given in 2004 prices and takes the inflation into account, i.e. 2% for each year, the request of the CoR corresponds to 398.59bn in 2011 prices.

[108] In its Opinion on The new multiannual financial framework post-2013, the CoR indicates that it 'supports the increase in the budget for European Territorial Cooperation from EUR 9bn to EUR 13bn' (p.6).

[109] In its Opinion on The new multiannual financial framework post-2013, the CoR welcomes 'the proposal for a new EUR 40bn "Connecting Europe Facility" to support investment in transport, energy and ICT infrastructure of European importance and considers that removing bottlenecks on these networks will be of significant added value to society' (p.7). In the opinions on the Connecting Europe Facility and on the proposal for a Regulation on the Cohesion Fund, the Committee of Regions endorses the EUR 10bn. additional resources conferred to the CEF from the Cohesion Fund allocations, raising the total to EUR 50bn. The two opinions however express some concerns on the management of the share of the CEF transferred from the Cohesion Fund.

[110] In its Opinion on The new multiannual financial framework post-2013, the CoR welcomes 'the boost to funding proposed for the EU's specific education, training, youth (including sports) programmes, with a budget increase to EUR 15bn' (p.7).

[111] In its Opinion on The new multiannual financial framework post-2013, the CoR notes 'the decrease in funds proposed for the Common Agricultural Policy (CAP) from EUR 396bn to EUR 372bn' (p.8).

[112] In its Opinion on The new multiannual financial framework post-2013, the CoR regrets that he budget for rural development (EUR 90bn) will remain disproportionately small compared to the funds allocated to direct payments. However, the CoR does not propose any figures that could replace the Commission's proposal.

EMFF[114]	No proposed figure
European Fund for Globalisation[115]	No proposed figure
Reserve for crisis in the agricultural sector[116]	No proposed figure
HEADING 3 : Security and citizenship[117] of which	18.535
Public Health Programme[118]	0.396
Creative Europe Programme[119]	1.590
HEADING 4 : Global Europe of which	No proposed figure
Neighbourhood Policy and Development[120]	36.000
HEADING 5 : Administration[121]	No proposed figure

Source: Based on CoR opinions

[113]In its Opinion on The new multiannual financial framework post-2013, the CoR 'underlines the value of the LIFE+ programme and welcomes its increase in financing to EUR 3.2bn' (p.9).

[114] In its Opinion on The new multiannual financial framework post-2013, the CoR indicates that it is 'concerned that the inclusion of fisheries policy within an integrated maritime policy under the European Maritime and Fisheries Fund (EMFF) may imply a reduction on the levels of funding allocated to fisheries' (p.9). However, the CoR does not propose any figures for the EMFF.

[115] In its Opinion on the Reform of the common agricultural policy and rural development policy post 2013, the CoR mentions that the 'European Fund for Globalisation, which has some EUR 2.5 billion, is poorly adapted for tackling the consequences of such trade agreements on the agricultural sector' (p.3). Nevertheless, the CoR does not propose any figure to replace the Commission's proposal.

[116] In its Opinion on the Reform of the common agricultural policy and rural development policy post 2013, the CoR indicates that it 'is concerned that the proposed new EUR 3.5bn "reserve for crises in the agricultural sector" and enlarged the scope of the Globalisation Adjustment Fund translates the Commission's preference for reactive rather than preventive measures, and believes that greater budgetary flexibilities should be used to tackle crises rather than creating an increasing array of different reserves, funds, and emergency instruments outside the MFF (…)' (p.9).

[117] In its Opinion on The new multiannual financial framework post-2013, the CoR 'welcomes the budgetary proposals under this heading and stresses the importance of a fully resourced immigration, asylum, and security budget' (p.9).

[118] In its Opinion on The new multiannual financial framework post-2013, the CoR 'underlines the importance of the EUR 396m proposed for the EU's public health programme and stresses that sufficient financing must be made available for social, biological and technological innovation in the field of health services '(p.10).

[119]In its Opinion on The new multiannual financial framework post-2013, the CoR 'underlines the importance of the proposed EUR 1.6bn for the Creative Europe Programme' (p.10).

[120] In its Opinion on The new multiannual financial framework post-2013, the CoR 'recognises that (…) the challenges faced by the EU require a global response. The CoR welcomes therefore the increased budget to be allocated to Neighnouhood Policy and Development Cooperation (EUR 36bn)' (p. 10).

[121]In its Opinion on The new multiannual financial framework post-2013, the CoR 'underlines that significant savings can be achieved through restructuring and inter-institutional cooperation, as well as through a better organisation of institutional activities via the integrated application of e-solutions' (p.11).

Conclusions

After the summer break, the EU institutions involved in the MFF 2014 - 2020 negotiations are expected to resume talks, with the ambitious goal of reaching an agreement in principle by the end of the year. This is not an easy task, especially since negotiations are governed by the principle that nothing is agreed until everything is agreed, making the decision on expenditure conditional on that on revenues. Aside from the differences in opinion among the Commission, the EP and the Council, Member States also disagree on several aspects, and it still remains to be seen who will prove more open to compromise.

This note presents the state of play in negotiations as of August 2012 and proposes budget figures for filling in the 'negotiating box' put forward by the Danish Presidency of the Council. As already mentioned elsewhere in the note, the 'political power game' is very present in the negotiations, with each of the stakeholders trying to compromise its own positions as little as possible. One of the underlying causes for the divergences among and within the institutions involved in negotiations is a different understanding of the role the EU budget should play - as an investment budget that can invigorate growth or as a spending budget financed by MS deeply affected by austerity measures.

Following the debate sometimes proves a challenging endeavour, in the absence of an official Council position and with each Member State propagating its own viewpoint. With the exception of the Commission, the EU institutions also have not expressed opinions on all of the different issues covered by the MFF and their standpoint on specific budget figures is still very open. However, discussions are advancing: the informal meeting of the GAC on 30 August was said to have been the last one before the introduction of figures in the negotiating box, with an envisaged European summit in November dedicated to the MFF 2014 - 2020[122]. It remains to be seen in how far much progress can be made in the coming months on hammering out a compromise which partially accommodates but also partially disappoints the positions of the different stakeholders involved in the negotiations.

[122] See: http://www.europolitics.info/institutions/extraordinary-november-summit-dedicated-to-mff-confirmed-art342262-37.html

Bibliography

Brand, C., 2012, *Germany and the UK lead calls for EU spending cuts*, European Voice, [online], available at: http://www.europeanvoice.com/article/2012/january/germany-and-uk-lead-calls-for-eu-spending-cuts/73362.aspx

Committee of Regions, *Opinion of the Committee of Regions on Connecting Europe Facility. 2-12/c 277/12*

Committee of the Regions, 93rd Plenary Session, 14 – 15 December 2011, *Opinion of the Committee of the Regions. The New Multiannual Financial Framework Post-2013*, CdR 283/2011 fin

Committee of the Regions, 95th plenary session, 3-4 May 2012, *Opinion of the Committee of the Regions Proposal for a Regulation on the Cohesion Fund*, CdR 7/2012 fin

Committee of the Regions, 95th plenary session, 3 – 4 May 2012, *Opinion of the Committee of the Regions, Proposal for a General Regulation on the Funds Covered by the Common Strategic Framework*, CdR 4/2012 fin

Committee of the Regions, 95th plenary session, 3-4 May 2012, *Opinion of the Committee of the Regions,Proposal for a Regulation on the ERDF,*CdR 5/2012 fin

Committee of the Regions, 95th plenary session, 3-4 May 2012,*Opinion of the Committee of the Regions Legislative Proposals on the Reform of the Common Agricultural Policy and Rural Development Policy Post-2013*, CdR 65/2012 fin

Committee of the Regions, 96th plenary session, 18-19 July 2012, *Opinion of the Committee of the Regions,Horizon 2020(the framework programme for research and innovation)*, CdR 402/2011 fin

Committee of the Regions, *CoR Activities, Priorities* [online], available at: http://cor.europa.eu/en/activities/Pages/priorities.aspx

Council of the European Union, *The rules for the adoption of the MFF package*, available at: http://www.consilium.europa.eu/special-reports/mff/decision-making-process02

Council of the European Union, *Glossary* [online], available at: http://www.consilium.europa.eu/special-reports/mff/glossary

Council of the European Union, Note from the Presidency to the Permanent Representatives Committee, *Multiannual Financial Framework (2014 – 2020) – State of Play of work undertaken in the Friends of the Presidency Group (MFF) in February 2012*, available at: http://register.consilium.europa.eu/pdf/en/12/st07/st07038.en12.pdf

Council of the European Union, 10 February 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Preparation of the Council ("Competitiveness") of 20-21 February 2012*, available at: http://register.consilium.europa.eu/pdf/en/12/st06/st06281.en12.pdf

Council of the European Union, 21 February 2012, 3148th Economic and Financial Affairs Council meeting Brussels, *Council conclusions on the budget guidelines for 2013*, available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/128093.pdf

Council of the European Union, 19 June 2012, *Note from the Presidency to the Permanent Representatives Committee/Council, Multiannual Financial Framework (2014 – 2020) – Negotiating Box*, available at: http://register.consilium.europa.eu/pdf/en/12/st11/st11539.en12.pdf

Council of the European Union, 2 July 2012, Note from the Presidency to the Permanent Representatives Committee/Council, *Multiannual Financial Framework (2014 – 2020) – Organisation of work within the Council in the second semester 2012*, available at: http://www.cy2012.eu/index.php/en/file/9HR91z3lon72nxXo9+AUZw==

European Commission, 19.10.2010, COM(2010) 700 final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the National Parliaments the EU Budget Review*, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0700:FIN:EN:PDF

European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and*

Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part I, available at: http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_I_en.pdf

European Commission, 29.06.2011, COM(2011)500final, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020 – Part II: Policy fiches*, available at: http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_II_en.pdf

European Commission – Press Release, 19/10/2011,*Connecting Europe Facility: Commission adopts plan for €50 billion boost to European networks*, available at: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1200

European Commission, *European Commission proposal for the 2014 -2020 Multiannual Financial Framework. Basic guide to the multiannual financial framework*, available at: http://ec.europa.eu/budget/library/biblio/publications/2011/mff2011/MFF_2011_en.pdf

European Commission, 9.11.2011, *Amended proposal for a COUNCIL DECISION on the system of own resources of the European Union (//EC, Euratom)*, COM(2011) 739 final, available at: http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/COM_2011_0739_EN.pdf

European Commission, 9.11.2011, *Proposal for a COUNCIL REGULATION on the methods and procedure for making available the own resource based on the value added tax*, COM(2011) 737 final, available at: http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/COM_2011_0737_EN.pdf

European Commission, 6.12.2011, *Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, on the future of VAT Towards a simpler, more robust and efficient system tailored to the single market*, COM(2011) 851 final, available at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/key_documents/communications/com_2011_851_en.pdf

European Commission, 9.11.2011, *Proposal for a COUNCIL REGULATION on the methods and procedure for making available the own resource based on the financial transaction tax*, COM(2011) 738 final, available at: http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/COM_2011_0738_EN.pdf

European Commission, 28.09.2011, *Proposal for a COUNCIL DIRECTIVE on a common system of financial transaction tax and amending Directive 2008/7/EC*, COM(2011) 594 final, available at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/other_taxes/financial_sector/com%282011%29594_en.pdf

European Commission, 25 July 2012, *Financial Transaction Tax under enhanced cooperation as a base for Own Resources.*European Commission Staff Non-paper.

European Council, 29 June 2012, *European Council 28/29 June 2012 Conclusions*, available at: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/131388.pdf

European Parliament, 8 June 2011, *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe*, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0266+0+DOC+XML+V0//EN

European Parliament, Committee on Budgets, 25 May 2012, *Working Document on outstanding commitments (RAL) and the payments issue*, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONSGML%2BCOMPARL%2BPE-489.663%2B01%2BDOC%2BPDF%2BV0%2F%2FEN

European Parliament, Committee on Budgets, 19 June 2012, *Working Document on own resource based on the added value tax*, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-491.364%2b01%2bDOC%2bPDF%2bV0%2f%2fEN

European Parliament, 13 June 2012, *European Parliament resolution on the Multiannual Financial Framework and own resources*, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0245+0+DOC+XML+V0//EN&language=EN

European Parliament, 19 June 2012, *Working document on own resource based on the added value tax*, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONSGML%2BCOMPARL%2BPE-491.364%2B01%2BDOC%2BPDF%2BV0%2F%2FEN

European Union, *Summaries of EU legislation, Development, European Development Fund (EDF)*, [online], available at: http://europa.eu/legislation_summaries/development/overseas_countries_territories/r12102_en.htm

European Union, 29 June 2011, *Multiannual Financial Framework (MFF): Questions and answers*, MEMO/11/468, available at: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/468&format=HTML&aged=1&language=EN&guiLanguage=fr

Europolitics [online], *Friends of Better Spending Nonpaper submitted by AT, DE, FI, FR, IT, NL, SE*, available at: http://www.europolitics.info/pdf/gratuit_en/313262-en.pdf

Kölling M. and Serrano Leal C., 2012, *Austerity vs. Stimulus: the MFF 2014 – 20's Role in Stimulating Economic Growth and Job Creation*, [online], available at: http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari24-2012

Latvian Ministry of Foreign Affairs, October 2011, EU Multiannual Financial Framework after 2013 - Latvian non-paper [online], available at: http://www.mfa.gov.lv/data/ANO/Fotogalerija/non_paper_mff.pdf

Lewandowski, J., 22 March 2012, *New Own Resources and Corrections*, 2nd high-level Conference with national parliamentarians co-sponsored by the European Parliament, the Danish Presidency of the Council and the European Commission Brussels, available at: http://ec.europa.eu/commission_2010-2014/lewandowski/library/documents/FTT_quantification_press.pdf

Molino,E. and Zuleeg F., 2011, *The Impact of New EU Own Resources on Regional and Local Governments*, available at: http://www.epc.eu/documents/uploads/pub_1230_impact_of_new_eu_own_resources.pdf

Official Journal of the European Union, 30.3.2010, *Consolidated Version of the Treaty on the Functioning of the European Union*, Title II Financial Provisions, Chapter 1 The Union's Own Resources, Article 311, (ex Article 269 TEC)

Official Journal of the European Union, 07.06.2011, *Opinion of the Committee of the Regions on 'The EU budget review'*, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:166:0009:0017:EN:PDF

Presidency of the Council of the European Union, 20 August 2012, *Presidency Issues Paper Multiannual Financial Framework 2014 -2020, Informal Meeting of Ministers and Secretaries of State for European Affairs, Nicosia, 30 August 2012*
Sebag, G., 16 February 2012, *Council ready to fight over both commitments and payments*, available at: http://www.europolitics.info/institutions/council-ready-to-fight-over-both-commitments-and-payments-art326363-37.html

Sebag, G., 30 August 2012, *Extraordinary November summit dedicated to MFF confirmed*, [online], available at: http://www.europolitics.info/institutions/extraordinary-november-summit-dedicated-to-mff-confirmed-art342262-37.html

Smets, I., 2012, *Les députés ne veulent pas se laisser déposséder de leurs droits*, Europolitique, [online], Availableat: http://www.europolitique.info/politiques-sectorielles/les-d-put-s-ne-veulent-pas-se-laisser-d-poss-der-de-leurs-droits-art339872-18.html

Smets, I., 2012, *Ministers set rules for co-financing of trans-European networks, Europolitics* [online], available at: http://www.europolitics.info/business-competitiveness/ministers-set-rules-for-co-financing-of-trans-european-networks-art336321-9.html

UK Parliament, House of Lords, The Multiannual Financial Framework 2014-20 - European Union Committee, *Chapter 7: Shape and flexibility of the MFF* [online], Available at:

http://www.publications.parliament.uk/pa/ld201012/ldselect/ldeucom/297/29710.htm#note205

***, 25 March 1957, *The Treaty of Rome*, Part Five Institutions of the Community, Title II Financial Provisions, Article 201, p. 62

Annexe 1

Member State	Group affiliation	Position regarding budget increase
Austria	Friends of Better Spending	against
Belgium	Not affiliated	in favour
Bulgaria	Friends of Cohesion	in favour
Cyprus	Not affiliated	in favour
Czech Republic	Friends of Cohesion	in favour
Denmark	Not affiliated	against
Estonia	Friends of Cohesion	in favour
Finland	Friends of Better Spending	against
France	Friends of Better Spending	against
Germany	Friends of Better Spending	against
Greece	Friends of Cohesion	in favour
Hungary	Friends of Cohesion	in favour
Ireland	Not affiliated	in favour
Italy	Friends of Better Spending	against
Latvia	Friends of Cohesion	in favour
Lithuania	Friends of Cohesion	in favour
Luxembourg	Not affiliated	not made public
Malta	Friends of Cohesion	in favour
Netherlands	Friends of Better Spending	against
Poland	Friends of Cohesion	in favour
Portugal	Friends of Cohesion	in favour
Romania	Friends of Cohesion	in favour
Slovakia	Friends of Cohesion	in favour
Slovenia	Friends of Cohesion	in favour
Spain	Friends of Cohesion	in favour
Sweden	Friends of Better Spending	against
United Kingdom	Friends of Better Spending	against