European Committee of the Regions

Commission for Territorial Cohesion Policy and EU Budget (COTER)

Brussels, 26 June 2018

Background note for the exchange of views on the opinion on "The Multiannual Financial Framework package for the years 2021-2027"

On 2 May 2018, the Commission presented a number of legislative proposals for the next Multiannual Financial Framework (MFF), including a proposal for a new own resources decision, the next MFF itself, and a Regulation on the application of the rule of law, which will form the basis for further discussions in the Council and the European Parliament in the months to come. On 29 May 2018, the Commission also presented legislative proposals for the ERDF/Cohesion Fund regulation, Common Provisions Regulation, followed by the proposal for the European Social Fund+ and Economic and Monetary Union programmes on 30 May.

This background note summarizes the key aspects of the MFF proposal, in order to facilitate the stakeholders' consultation with Nikola Dobroslavić (HR/EPP), COTER rapporteur for the opinion on "The Multiannual Financial Framework package for the years 2021-2027". It has to be noted that several issues were already discussed also at the 19th COTER meeting in Sofia, Bulgaria, the CoR conference on "Implications of the EU long-term budget post-2020 for local and regional authorities", held on 6-7 June 2018 and at subsequent CoR commissions' meetings (ECON, SEDEC, ENVE and CIVEX) in June and July 2018.

I. KEY POINTS OF THE MFF PROPOSAL

1. A more streamlined and transparent budget, with a structure more closely aligned to priorities and with fewer programmes has led to:

- an increase in the number of headings from 5 to 7, splitting former headings 1a and 1b into two separate headings 1 and 2 and creating a separate heading dealing with migration and border management;
- considerable increases in some headings, such as Single Market, Innovation and Digital (43%) and Migration and Border Management (207%), as well as radical cuts in the Common Agricultural Policy and Cohesion Policy (-11% for Regional Development and Cohesion, -7% for the ESF+, -11% for the 1st CAP pillar and -28% for the CAP 2nd pillar), reflecting on new priorities and keeping the MFF size relatively unchanged (only a 5% overall increase compared to the EU27 2014-20, including the EDF integration into the MFF);

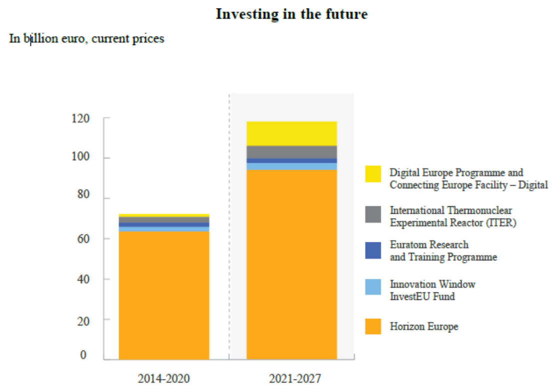
- the overall shares of the CAP and Cohesion Policy of the total MFF falling below 30% (28,3% for Cohesion Policy and 28,6% for the CAP, according to the Commission figures);
- considerable cuts in the allocation of the Cohesion Fund, equal to 45%, with possible further decreases owing to transfers to the Connecting Europe Facility – Transport, worth EUR 10 billion;
- a reinforced European Social Fund+, pooling resources of the current ESF, YEI, Fund for European Aid to the Most Deprived, the Employment and Social Innovation Programme and the Health programme, being put into a separate subheading 7. Investing in People, Social Cohesion and Values. Since some of the abovementioned programmes are under direct/indirect management, this move seems to be a first step towards the separation of the ESF+ from the other existing ESIF, as it was previously the case of the rural development (in addition, the EAFRD has been detached from the Common Provisions Regulation as put forward by the Commission on 29 May 2018). The ESF+ allocation, albeit the addition of other programmes, has already been decreased by 7%;
- although not in the official figures of the Commission in 2018 prices, the allocation for the European Territorial Cooperation seems to have decreased: internal calculations of the CoR administration show a 11,7% reduction compared to the current programming period, taking already into account the share of the UK in the current ETC programmes;
- radical relative increases for programmes such as Horizon Europe, InvestEU Fund (succeeding the current EFSI), CEF Energy and Digital, Single Market Programme (including COSME), European Space Programme, Erasmus+, LIFE, Asylum and Migration Fund, Integrated Border Management Fund, Internal Security Fund, Union Civil Protection Mechanism (rescEU).

In general, the changes in the budget structure appear to be rather an internal distribution of funding between headings than a completely new and modernized budget[1]. A detailed overview of proposed financial envelopes for individual headings and programmes and their comparison to the MFF 2014-2020 in 2018 prices, with the share of the UK deducted and the EDF allocation included, can be found in the table below (source: European Commission).

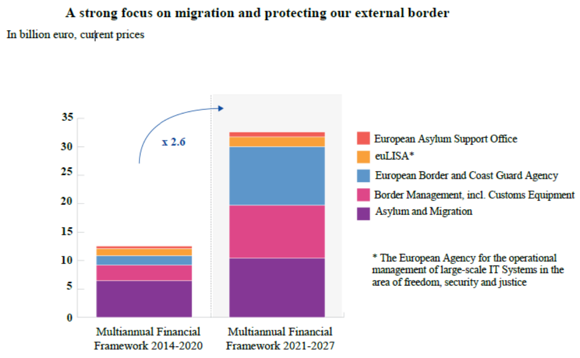
1 For more information, see a CPMR analysis on "How does the post-2020 EU budget support CPMR priorities?", May 2018, available at: http://cpmr.org/wpdm-package/analysis-how-does-the-post-2020-eu-budget-support-cpmr-priorities/?wpdmdl=17722&ind=mIQYsMRavPzWTiAFevJvZyXT0tjNjszuzNuGkBBAlZALwhOGjSD0p81L9MBUOSvy and a CEPS commentary on "The Multiannual Financial Framework, where continuity is the radical response", 4 May 2018, available at: https://www.ceps.eu/system/files/JNFandDG_MFF_0.pdf

	2021-2027	2014-2020 (EU27+EDF)	% change vs. EU27 2014-2020
1. SINGLE MARKET, INNOVATION AND DIGITAL	**166.303**	**116.361**	43%
1. Research and Innovation	91.028	69.787	30%
Horizon Europe	86.596	67.063	*29%*
Of which under the InvestEU Fund	*3.105*	*2.390*	*30%*
Of which research and innovation in food, agriculture, rural development and the bioeconomy	*8.873*	*5.074*	75%
Euratom Research and Training Programme	2.129	2.119	0%
International Thermonuclear Experimental Reactor (ITER)	5.406	2.992	81%
Other	2,00	1,53	48%
2. European Strategic Investments	44.375	31.886	39%
InvestEU Fund	13.065	3.968	
Connecting Europe Facility - Transport	11.384	12.393	-8%
Connecting Europe Facility - Energy	7.675	4.185	83%
Connecting Europe Facility - Digital	2.662	1.001	166%
Digital Europe Programme	8.192	172	
Other	177	9.097	-98%
Decentralised agencies	1.220	1.069	14%
3. Single Market	5.672	5.100	11%
Single Market Programme (incl. COSME)	5.404	4.940	9%
Of which under the InvestEU Fund	1.774	1.394	27%
EU Anti-Fraud Programme	161	156	3%
Cooperation in the field of taxation (FISCALIS)	239	226	6%
Cooperation in the field of customs (CUSTOMS)	843	536	57%
Other	87	61	43%
Decentralised agencies	714	575	24%
4. Space	14.404	11.502	25%
European Space Programme	14.196	11.308	26%
Decentralised agencies	208	194	8%
Margin	10.824	-1.913	
2. COHESION AND VALUES	**391.974**	**387.250**	1%
5. Regional Development and Cohesion	242.209	272.647	-11%
European Regional Development Fund	200.622	196.564	2%
Cohesion Fund	41.374	75.848	-45%
Of which contribution to the Connecting Europe Facility - Transport	10.000	11.487	-13%
Support to the Turkish-Cypriot Community	213	236	-10%
6. Economic and Monetary Union*	22.281	273	
Reform Support Programme (incl. Reform Delivery Tool and Covergence Facility)	22.181	185	
Protection of the Euro Against Counterfeiting	7,00	7,43	-8%
Other	93	81	16%
7. Investing in People, Social Cohesion and Values	123.466	115.729	7%
European Social Fund+	89.688	96.216	-7%
Of which health, employment and social innovation	1.042	1.075	-3%
Erasmus+	26.368	13.699	92%
European Solidarity Corps	1.113	373	199%
Creative Europe	1.642	1.403	17%
Justice, Rights and Values	841	910	-8%
Other	1.185	1.158	2%
Decentralised agencies	2.629	1.971	33%
Margin	4.018	-1.399	
3. NATURAL RESOURCES AND ENVIRONMENT	**336.623**	**399.608**	**-16%**
8. Agriculture and Maritime Policy	330.724	390.155	-15%
European Agricultural Guarantee Fund (EAGF)	254.247	286.143	-11%
European Agricultural Fund for Rural Development (EAFRD)	70.037	96.712	-28%
European Maritime and Fisheries Fund	5.448	6.243	-13%
Other	878	962	-9%
Decentralised agencies	113	95	20%
9. Environment and Climate Action	5.085	3.492	46%
Programme for Environment and Climate Action (LIFE)	4.828	3.221	50%
Decentralised agencies	257	272	-5%
Margin	814	5.960	
4. MIGRATION AND BORDER MANAGEMENT	**30.829**	**10.051**	**207%**
10. Migration	9.972	7.180	39%
Asylum and Migration Fund	9.205	6.745	36%
Decentralised agencies	768	435	77%
11. Border Management	18.824	5.492	243%
Integrated Border Management Fund	8.237	2.773	197%
Decentralised agencies	10.587	2.720	289%
Margin	2.033	-2.621	
5. SECURITY AND DEFENCE	**24.323**	**1.964**	
12. Security	4.255	3.455	23%
Internal Security Fund	2.210	1.200	84%
Nuclear Decommissioning (Lithuania)	490	459	7%
Nuclear safety and decommissioning (incl. for Bulgaria and Slovakia)	555	900	-38%
Decentralised agencies	1.001	896	12%
13. Defence	17.220	575	
European Defence Fund	11.453	575	
Military Mobility	5.767	0	
14. Crisis Response	1.242	1.222	2%
Union Civil Protection Mechanism (rescEU)	1.242	560	122%
Other	p.m.	662	
Margin	1.606	-3.289	
6. NEIGHBOURHOOD AND THE WORLD	**108.929**	**96.295**	**13%**
15. External Action	93.150	85.313	9%
Neighbourhood, Development and International Cooperation Instrument	79.216	71.767	10%
Humanitarian Aid	9.760	9.906	-1%
Common Foreign and Security Policy (CFSP)	2.649	2.101	26%
Overseas Countries and Territories (including Greenland)	444	594	-25%
Other	949	801	18%
Decentralised agencies	132	144	-8%
16. Pre-accession assistance	12.865	13.010	-1%
Pre-Accession Assistance	12.865	13.010	-1%
Margin	2.913	-2.027	
7. EUROPEAN PUBLIC ADMINISTRATION	**75.602**	**70.791**	**7%**
European Schools and Pensions	17.055	14.047	21%
Administrative expenditure of the institutions	58.547	56.744	3%
TOTAL	**1.134.583**	**1.082.320**	**5%**
In % GNI (EU-27)	**1,11%**	**1,16%**	

The Commission states that the current proposal focuses more on "investing in the future" and "migration and protecting our external border":



Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27 (estimate)
Source: European Commission



Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27 (estimate)
Source: European Commission

2. A more flexible, agile budget, enabling the EU to respond quickly and effectively to unforeseen demands. This includes increasing flexibility within and between programmes, strengthening crisis management tools and creating a new “Union Reserve” to tackle unforeseen events and to respond to emergencies in areas such as security and migration. The Commission is therefore proposing to revamp the existing flexibility mechanisms and to introduce a **new “Union Reserve”**.

- **Flexibility within and between programmes:** The Commission will propose built-in reserves to create flexibility within programmes. In addition, it is proposed that the amount that can be transferred from one programme to another within the same heading will be increased from 10% to 15%. The Commission also proposes the possibility of “blending” different forms of financial support, moving between different modes of management, “reprogramming” funding at mid-term as well as specific revisions of national allocations to adjust to developments over the period.

- **Flexibility between headings and years:** beyond ensuring sufficient unallocated margins, the Commission proposes to fully exploit the Global Margin for Payments introduced under the current framework. The Commission proposes to expand the size and scope of the Global Margin for Commitments in order to establish a “Union Reserve”. This will be financed from margins left available under the ceilings for commitments of the previous financial year, as well as through funds that have been committed to the EU budget but ultimately not spent in the implementation of programmes.

- **Special instruments**: the Commission has reviewed the scope of special instruments such as the Emergency Aid Reserve, the European Union Solidarity Fund and the European Globalisation Adjustment Fund. These instruments allow additional financial means to be entered in the EU budget over and above the ceilings set for the Financial Framework. The Commission proposes, where appropriate, to widen the scope of the instruments, for instance by allowing the activation of the Emergency Aid Reserve for emergencies inside the EU. The Commission also proposes to streamline the procedures for mobilising these instruments, and to increase the size of the flexibility instrument to EUR 1 billion (in 2018 prices) per year.

3. A reformed system of financing of the EU budget, addressing the need to fill the gap created by the UK leaving the EU and the need to finance new priorities. The reform comprises the following elements:

- The collection costs retained by Member States from the traditional own resources (customs duties and levies) to be restored from the current 20% to the original 10%;
- Phasing out of the current corrections and rebates as of 2021, to be transformed into lump sum payments per Member State that will gradually be decreased over five years, with the aim of preventing sharp and sudden increases of contributions of certain Member States;
- The simplification of the current Value Added Tax, basing it on standard rate supplies only;
- A basket of new own resources, composed from:
  - a share of the relaunched Common Consolidated Corporate Tax Base, **to be phased in** once the necessary legislation has been adopted. This will link the financing of the EU budget directly to the benefits enjoyed by companies operating in the Single Market;
  - a share (20%) of the auctioning revenue of the European Emissions Trading System: the European Emissions Trading System is a key tool of EU action to reduce greenhouse gas emissions cost effectively and has a direct link with the functioning of the Single Market;
  - a national contribution calculated on the amount of non-recycled plastic packaging waste: this will create an incentive for Member States to reduce packaging waste and stimulate Europe's transition towards a circular economy by implementing the European plastics strategy.

4. A closer link between the EU funding ant the rule of law, resulting in a proposal for a proposal of a regulation on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States.

The proposal of the Commission would affect all EU funds directed to a Member State and the decision shall be adopted by the Council, unless it decides, by qualified majority, to reject the Commission proposal within one month of its adoption by the Commission. The European Parliament should also be fully involved at all stages. According to the proposal, the following measures could be taken by the Commission:

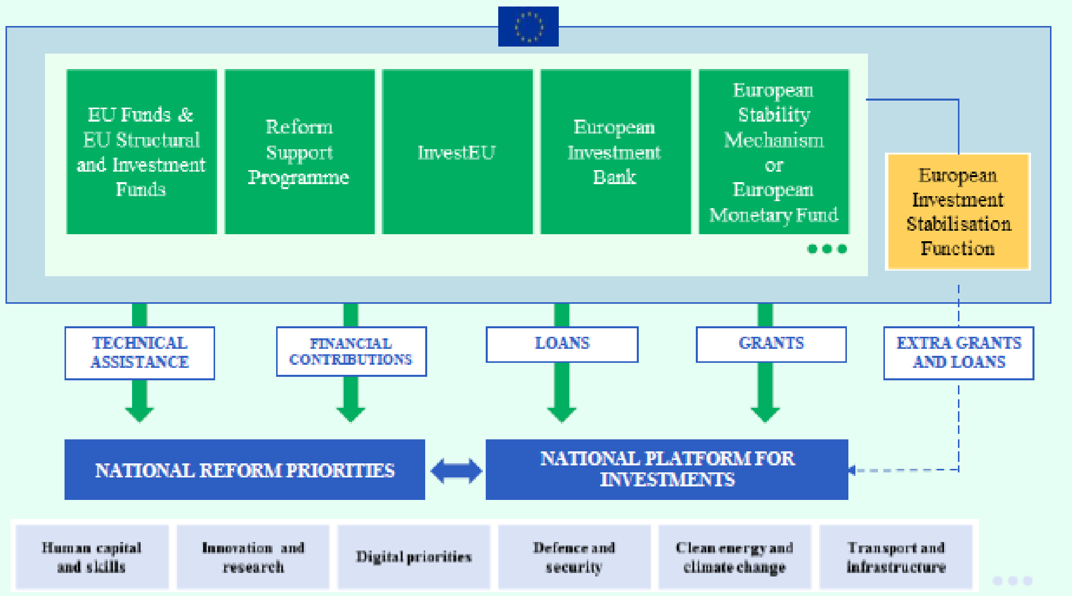
- a suspension of the approval of one or more programmes or an amendment thereof;
- a suspension of commitments;
- a reduction of commitments, including through financial corrections or transfers to other spending programmes;
- a reduction of pre-financing;
- an interruption of payment deadlines;
- a suspension of payments.

5. A strengthened link between the EU budget and the European Semester of economic policy coordination, taking regional specificities into account. The Commission will propose dedicated investment-related guidance alongside the annual Country-Specific Recommendations, both ahead of the programming process and at mid-term to provide a clear roadmap for investment in reforms that hold the key to a prosperous future.

In the new MFF, two new instruments are proposed:

- a **Reform Support Programme**, offering technical and financial support for reforms at national level with an overall budget of EUR 25 billion. This new programme will be separate but complementary to the future ESIF. It will include a **Reform Delivery Tool** providing financial incentives across all Member States for key reforms identified as part of the European Semester. It will focus on those reforms that can contribute most to making domestic economies more robust and that have positive spill-over effects on other Member States. This new programme will also include a dedicated **Convergence Facility** to support non-euro area Member States seeking to adopt the single currency during the period of the next MFF. **Participation in all three legs of the Reform Support Programme will be voluntary and Member States will keep full ownership of the reforms carried out**.
- A **European Investment Stabilisation Function**, complementing existing instruments at national and European level to absorb large asymmetric macroeconomic shocks in the euro area. In addition to the existing national automatic stabilisers, it is proposed that the EU budget will guarantee back-to-back loans of up to EUR 30 billion, available to Member States complying with strict eligibility criteria for sound fiscal and economic policies. The European Investment Stabilisation Function will also provide an interest rate subsidy in order to provide the necessary funding for national budgets to maintain investment levels. This subsidy will be financed from contributions from euro area Member States equivalent to a share of monetary income (seigniorage), but will be open also to non-euro area Member States if they contribute to its financing according to the European Central Bank capital subscription key.

New budgetary instruments for a stable euro area within the Union



Source: European Commission. Update of COM(2017) 822

II. Issues to be discussed

Based on the elements mentioned above, some of the following issues could be raised during the stakeholders' consultation (the list not being exhaustive):

- A continuation of the "carrying on" scenario rather than a radical redesign of the MFF might create internal traps, not allowing the MFF to respond quickly to new needs and eventually, failing to prevent the rise of populism and nationalism;
- Gradual dismantling of the goal of economic, social and territorial cohesion: the rural development was separated from the other ESIF in the current MFF into a separate subheading with the 1st CAP pillar and it is now proposed that the EAFRD is not covered by the Common Provisions Regulation. The same might happen to the ESF: the Commission proposed to separate the ESF from the ERDF and the Cohesion Fund into a separate subheading, merging it with some programmes under direct/indirect management;
- The link between the rule of law and the use of EU budget will be strengthened: although final beneficiaries should not be directly threatened, what implications can this proposal have on regions and beneficiaries?
- Publication of national envelopes on 29 May 2018 has negative implications: the debate on cuts and gains for individual Member States will most likely prevail over the debate on key aspects of the MFF proposal;
- Cuts of traditional policies, in particular the CAP, may have negative repercussions on regions. What positive aspects can be found in prioritizing "new goals" and challenges over the CAP and Cohesion Policy?
- The Commission has proposed to create a separate subheading for Economic and Monetary Union, introducing also two new instruments: a Reform Support Programme and a European Investment Stabilization Function. How will these tools match the objectives set in the proposal and are the financial envelopes sufficient? Will the stabilization function be fast enough to react to asymmetric shocks as described in the proposal?
- The new InvestEU Fund is proposed to build on the existing European Fund for Strategic Investments. Given the radical increase in funding of the new fund (229% compared to the existing EFSI), what is the possible link between its increase and a radical decrease in the Cohesion Fund envelope?
- New own resources are suggested to be introduced into the MFF: what is their feasibility, what impact can these have on subnational budgets?
- The proposal suggests dramatic cuts for Agriculture and Maritime Policy, with respective cuts for the 1st pillar, the 2nd pillar and the EMFF equal to 11%, 28% and 13%. What is the estimated impact of such cuts on the Common Agricultural Policy, rural development and blue economy and, in consequence, to the EU's regions? How could the decreased financing of the 2nd pillar address the urban-rural divide and contribute to the achievement of economic, social and territorial cohesion?