MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027: AN OVERVIEW

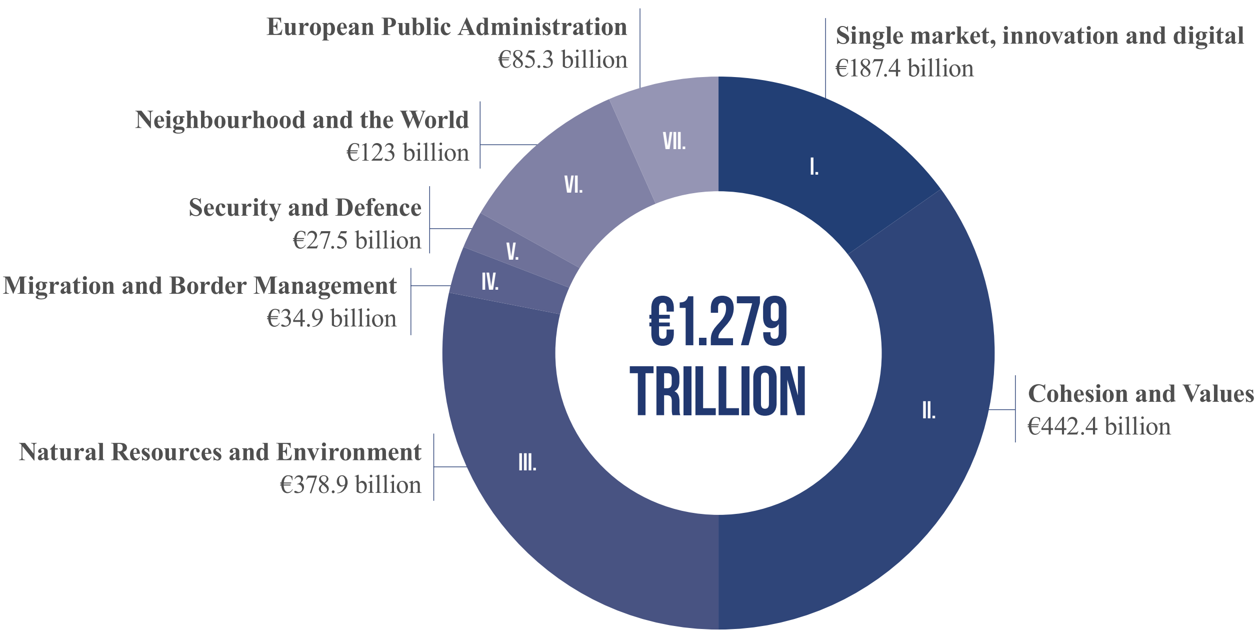
MAY 2018

The European Commission released on the 2nd of May 2018 its proposal for the next Multiannual Financial Framework (MFF) which will cover the years 2021 to 2027. The MFF sets the budget of the European Union for the next seven years and determines how it will be allocated to its various programmes. As such, the MFF reaffirms the EU's political priorities and defines how they will be achieved. Much awaited due to the impending Brexit, the proposal can be perceived as a bold move by the Commission, seeking to increase the EU budget and investing in new priorities such as defence or digital transformation, while cutting funds in flagship programmes.

WHAT ARE THE KEY FEATURES OF THE MFF

Despite the sizeable gap created by Brexit, the European Commission proposes to set the EU budget **up to €1.279 trillion**, which accounts for 1.11% of the EU27's gross national income. This ambitious amount is well-aligned with the Commission's motto for this MFF – 'doing more with less' – and aims to face two main challenges: dealing with the **financial consequences of the UK's withdrawal**, and **providing additional resources to tackle the EU's new priorities**.

The Commission has proposed that the EU budget is divided between seven headings, as follows:



CONCRETELY, WHAT DOES THIS MEAN

To implement this budget, the Commission plans to cut funding to two major programmes: the **Common Agricultural Policy (CAP)** and **Cohesion Policy**. They will respectively suffer a 5% and 7% reduction in funding, and will be redesigned to become more competitive, sustainable and resilient.

To realign EU expenditures on political priorities, the Commission also plans to focus on:

RESEARCH AND INNOVATION

Increase funding for research and innovation by massively upping investment into flagship programmes such as **Horizon Europe with its €97.9 billion budget**. The programme, which will replace Horizon 2020, could have up to 30% more resources than its predecessor and will fund research and innovation projects in a wide range of fields, including high-precision, zero-defect and zero-waste manufacturing systems, fighting cancer and supporting clean mobility and plastic-free oceans.

STRATEGIC AREAS

Invest in strategic areas like digital transformation, with up to **€9.2 billion for the Digital Europe Programme** designed to support investment in strategic areas such as artificial intelligence or cybersecurity and digitisation of public services and businesses, and €15.2 billion for **InvestEU**, a new investment fund for strategic investments in R&D.

THREATS AND CHALLENGES

Foster Defence & Security collaboration to ensure an effective and coordinated response to collective threats and challenges faced by the EU, notably through the allocation of **a €13 billion budget to the European Defence Fund** - making the EU one of Europe's largest investors in defence research and technology.

PEOPLE AND SKILLS

Invest in people and skills development, for instance by **doubling the size of Erasmus+ to €30 billion**.

CLIMATE CHANGE

Strengthen the EU's commitment to **fight climate change with at least 25% of EU expenditure** contributing to environment protection objectives.

EXTERNAL BORDERS

Manage the EU's external borders, migration and asylum, through **a significantly higher budget of €34.9 billion** compared to the €13 billion budget of the last MFF.

Furthermore, to fund these new investments, the Commission intends to **modernise and diversify the EU sources of revenue**, its 'Own Resources'. The budget proposal suggests doing so by:

MODERNISING EXISTING RESOURCES

Modernising existing own resources: decreasing from 20% to 10% the percentage Member States retain as 'collection costs' from customs duties, simplifying the Value Added Tax-based own resource, maintaining own resource based on Gross National Income.

NEW WAYS OF FINANCING

Introducing **new ways of financing the EU budget** with a basket of new own resources consisting of 3% call rate applied to Common Consolidated Corporate Tax Base, a 20% share of auctioning revenue of the European Emissions Trading System, and national contributions based on the amount of non-recycled plastic packaging waste.

ELIMINATING REBATES

Eliminating rebates.

INCREASE RESOURCES CEILING

Increase the own resources ceiling.

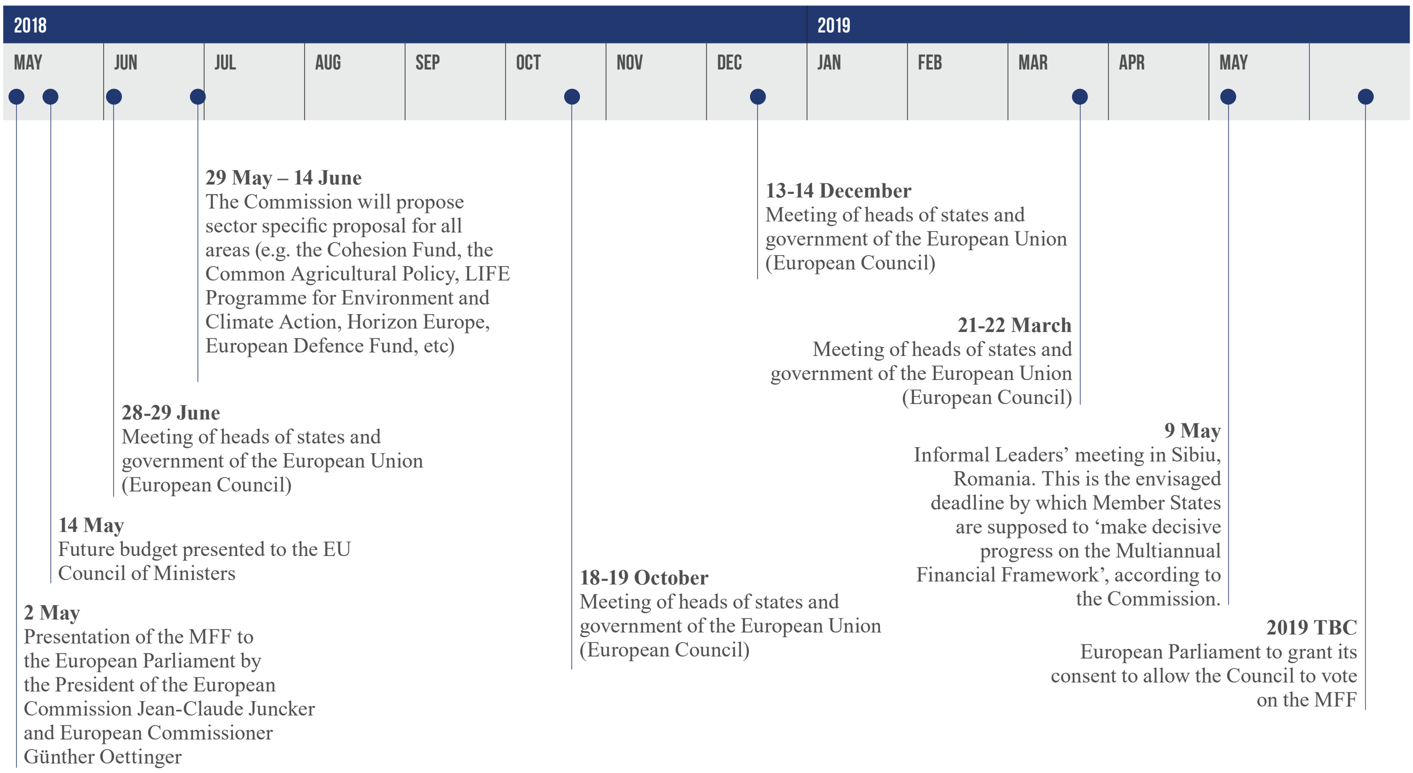
WHAT HAPPENS NEXT

As with all MFFs, the next EU budget is expected to go through an intense phase of negotiations between EU institutions, with the European Parliament having to grant its consent to enable the Council to vote and **unanimously adopt the proposal** (for reference, the previous MFF negotiations lasted 2.5 years). The MFF will contain the following legal acts:

- **acts on own resources**, which the Commission has proposed to diversify and modernize;
- **sector-specific acts**, which define the operational spending programmes of the EU as well as the conditions for eligibility and criteria for funding allocations.

The Commission is calling for an agreement to be reached on the budget proposal before the next European elections, in May 2019. To do so, the EU's institutions and Member States will have to agree on **several points of contention**; from imposing respect of the rule of law as a fundamental prerequisite to access EU funding, to having Member States agree on cuts to major programs, and to the exact amount of the budget itself. While some Member States like France and Germany are ready to increase their contribution and are pushing for a more ambitious and tougher budget, other countries such as the Netherlands, Sweden or the Baltics, are already expressing their disapproval to any kind of increase of the EU budget. In other words, the negotiations will doubtless be though.

The tentative timeline is as follows:



WHAT THEY SAY

POLITICAL GROUPS

The **European People's Party** considers the proposed MFF a 'good starting point for discussion', but notes that cutting funding to Agriculture and Social Cohesion would be problematic for Member States.

The **S&D** reported to be disappointed by a budget proposal which it deems to be not ambitious enough to meet the new challenges facing the EU.

The **ECR** stated that the EU budget was 'disappointing' and 'predictable', looking at fostering centralisation and 'Brussels meddling', while acknowledging some elements as increase funding for research and innovation are essential.

The **ALDE** group welcomed the proposal from the Commission, considering particularly positive the introduction of additional own resources in order to diversify the revenue sources.

MEMBER STATES

The **French** government expressed strong opposition and stated that it will not accept the proposed cuts to Agriculture.

Germany also voiced concerns about fair burden-sharing in the next MFF, arguing that financial efforts to strengthen Europe should be shared by all Member States.

Denmark, the Netherlands and Sweden criticized the proposed budget increase, claiming that a smaller EU should lead to a smaller budget.

Poland and Hungary, the two states primarily targeted by the the rule of law proposal, declared that they would not accept being 'blackmailed' by EU funds used as political tools.

EU SOCIAL PARTNERS

BusinessEurope welcomed the increased funds for research and innovation, although it called for an even more ambitious budget. The association also urged policymakers to prioritise actions aimed at increasing EU competitiveness and reach a swift agreement before European elections.

The **European Trade Union Confederation** (ETUC) expressed criticism towards the envisaged cuts to Cohesion Funds, highlighting the importance of levelling economic gaps between countries in order to fight unfair competition and social dumping. Among other things, ETUC also called for increased own resources for the EU budget.

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