## The budget review and the next MFF

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Overview of issues – Commission proposals

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-Iniziativa realizzata con il contributo dell'Unione Europea, DG Agricoltura e Sviluppo Rurale

-Gli articoli e i contributi ai convegni Agriregionieuropa rappresentano il pensiero dei singoli autori e relatori.

-Essi non riflettono in alcun modo la posizione dell'Unione Europea.

# Overview

- Context lessons learned
- Topics from the Budget Review
- Design of the MFF
- Own resources
- The next steps



## **Lessons learnt - context**



# The Multiannual Financial Framework is a success story

- Discipline and predictability: Ceilings have assured budgetary discipline – allowed multiannual programming.
- Reliable compromises: MFF agreements have ensured smooth annual budgetary procedures. Unanimous agreements between a growing number of Member states and the European Parliament have provided a stable environment for the BA.
- Innovations and flexibility were possible: Revisions since 2007 have allowed the MFF to cope with almost € 10 bn of unforeseen expenditure; EU Own Resources are serving as collateral to support crisis stabilisation mechanisms.





## ...but it needs to be improved

- Lack of flexibility: Reaction to unforeseen circumstances and changing priorities has been very difficult.
- Excessive focus on "net balances": The "juste retour" logic favours pre-allocated expenditure and reduces EU value added.
- Domination of grants limits leverage: Instruments of financial engineering linking EU funds with loans and private funds are still very limited.
- Amounts dominate over delivery: Negotiations neglect the conditions for effective implementation.
- Avoid delays to put new programmes in place early agreement needed



# Context – the crisis and beyond

#### Increased global challenges

Climate change, energy, security, migration...

#### A radically changed ecomomic climate

- Economic governance and budgetary consolidation at the heart of the political debate
- Climate of budgetary austerity

#### The EU budget under increased scrutiny

- Crisis has reduced GNI (1.05% has become 1.13%)
- Letter of five

#### But also given new roles

- EFSM BOP
- Possibly suporting economic governance



## Topics from the budget review



## Principles for the EU budget

- Delivering key policy priorities: Implement the Treaty of Lisbon, help deliver EU2020 strategy.
- EU added value: Application of the subsidiarity principle, complementarity between EU and national/regional budgets.
- A results-driven budget: Performance budgeting, conditionality, simplified implementation.
- Mutual benefits through solidarity: Reform requires solidarity; interdependence in the single market requires solidarity, but distributes benefits widely; solidarity enables geographically concentrated interventions.
- A reformed financing of the budget: EU Own Resources should again be linked to common policies; transparency and fairness to be improved.

# EU budget as one tool to achieve EU 2020 objectives

- The EU is committed to a fundamental programme of economic reform, the "EU2020" strategy, to unlock the potential of the EU economy to find new sources of growth and create new jobs:
  - Smart growth: Research and innovation, infrastructure of the future (transport and energy).
  - Sustainable growth: Green technology and services; reform of the CAP.
  - Inclusive growth: Cohesion policy to enable coherent implementation of EU2020 strategy; skills and mobility; cushion major sectoral disruptions.
  - Citizenship: Assist Member States to assure freedom, security and justice; strengthen European integration.
  - Global Europe: With globalisation, key issues (energy security, migration, climate change, security) can only be tackled at global level.



# A budget delivering results

#### Use of resources through incentives

- Possible introduction of conditionalities defining a specific set of targets on which disbursement of EU funds would depend
- Other options: performance reserves or modulate co-financing rates to performance
- Need to define specific, measurable, achievable, relevant and timed objectives as well as performance indicators.

#### EU budget to support economic governance:

Macroeconomic stability and structural reforms require each other, EU budget could provide part of preventative and corrective measures, covering a broader range of expenditure.

#### Simplify and minimise administrative burden

- Implementation procedures and control requirements are too complicated
- A clear set of common principles for eligibility rules under shared and centralised management should be agreed.



# Using the budget to leverage investment

#### Leverage investment

- Projects with long-term potential should involve EU funds used in partnership with the private and banking sectors
- Increased use of blending of grants and loans

#### EU project bonds

- Could facilitate major cross-border infrastructure projects
- Support from EU budget to project bonds issued by the private sector or by the EIB to enhance the credit rating

#### Large scale projects

- Require considerable investments over a time period going beyond a financial framework (Galileo, ITER,GMES)
- Separate support structure set up by the project promoters, to which EU budget would make a fixed annual contribution



# **Design of the MFF**



## Better system design

- Duration of the MFF: 5, 7 (5+2), 10 (5+5) years ?
- Flexibility: Between headings, between budget years, via bigger margins, by QMV in Council.
- Structure of the MFF: aligned with EU2020, internal/external?
- EFSM/BOP: Guaranteed lending to Member States limited by OR ceiling



### MFF Revisions 2007-2010

Almost EUR 10 billion of unforeseen new expenditure has been accommodated under the ceilings of the MFF without increasing the overall total

Galileo	EUR 2.4 bn
Food facility	EUR 1.0 bn
European Economic Recovery Plan (EERP)	EUR 5.0 bn
ITER(tbc)	EUR 1.3 bn



# **Currently Remaining Margins**

#### Except for Heading 2 in 2011, extremely limited

MARGIN BY MAFF HEADING (million EUR)		Budget	Financial Programming	
		2011	2012	2013
1A	Competitiveness for growth and employment	0,4	34,8	47,4
1B	Cohesion for growth and employment	6,4	1,4	0,4
2	Preservation and management of natural resources	1.679,0	125,0	130,2
3A	Freedom, security and justice	67,0	26,5	52,9
3B	Citizenship	0,1	18,1	22,8
4	European Union as a global player	0,6	132,3	134,6
5	Administration	243,2	173,0	205,2



#### Existing instruments in the IIA of May 2006

- 4 instruments outside the MFF
- Revision by QMV in Council up to 0.03% of GNI

#### The 0.03% problem

- Lisbon Treaty Art 312: technical exercise, but...
- Jurisprudence (ruling ECJ 6 May 2008-case C-133/06)
- Contingency margin
  - Council agreement: 'neutrality' redeployment
  - EP consent: ?



## **Own resources**



The financing side of the EU budget is considered as too complex, unfair, relying too much on national budget resources and largely disconnected from EU policies.

- Simplifying the contributions from the MS: the VAT-based OR has little value added; the GNI-based OR should become once more a balancing item.
- Progressively introduce one or several policy-driven own resources: more closely linked to EU policy objectives, crossborder in nature, harmonised base, fair, limited collection costs. No transfer of fiscal sovereignty.
- Tackling the correction mechanisms: the need for corrections will depend on the agreed expenditure and the reforms of the OR system; then the principles of « Fontainebleau » still apply.



# The next steps



## **Envisaged timeline**

- EP SURE Committee Report May-June 2011
- Commission proposals in June 2011:
  - A policy document
  - A new MFF regulation 2014 -20xx
  - A new IIA
  - An OR report
  - A new OR decision (+ implementing regulation?)
- In the second half of 2011, Commission presents the various sectoral **legislative proposals** for all the post-2013 policies and programmes



## **Envisaged timeline**

- Polish Presidency: detailed examination of Commission proposals
- EP to continue preparatory process (SURE BUDG?)
- Danish Presidency : Council negotiations
   June 2012: target = unanimous Council agreement
- Cypriot Presidency: If necessary, finalise Council negotiations Negotiations with EP on the MFF regulation and the IIA EP consent is necessary target = agreement December 2012
- 2013: negotiations and adoption of all new legal bases and new own resources decision



### Inter-institutional collaboration

- EP wants to be involved in the entire process
- Council: wants to strictly limit it to the Lisbon Treaty
  - MFF regulation: Art 312 (2) unanimity + consent
  - IIA: co-signatories
  - OR Decision: Art 311 unanimity (ratification) + consultation
  - OR Regulation: Art 311 QMV + consent
  - OR Regulation: Art 322 (2) QMV + consultation



### For more information

On the EU-budget in general:

http://ec.europa.eu/budget/index\_en.htm

On the budget review:

http://ec.europa.eu/budget/reform/index en.htm

