

Post-2020 MFF and own resources

Ahead of the Commission's proposal

SUMMARY

On 2 May, the Commission is expected to publish proposals for a new multiannual financial framework (MFF) for the European Union for the years after 2020, as well as for a new system of own resources (OR) to provide the EU with the means to finance its annual budgets. The following day the proposals are to be presented to the Parliament's Committee on Budgets (BUDG). The proposals are being published as a package, and will be followed by a series of further legislative proposals for individual spending programmes to appear later in May and in June.

The next MFF and OR system will set the EU's priorities and determine much of its scope for action for a period of at least five years. The proposals are an opportunity for the Commission to respond to a set of longstanding issues concerning how the EU finances its priorities, and to new issues arising from a political landscape that has changed profoundly since 2013, when the EU last negotiated its multiannual budget plan. Chief among these are the twin pressures affecting both the revenue and spending sides of the budget: the loss of a major net contributor country in the departure from the EU of the United Kingdom; and growing pressure to respond to new challenges mainly linked to the refugee and migration crisis that erupted after the current MFF was put in place, as well as ongoing issues resulting from the financial and sovereign debt crises.

The Commission's proposals for a new MFF and OR will also respond to the question of how big the EU budget should be. Currently subject to a political cap of 1 % of the EU's GNI, the EU budget is modest in comparison with the government budgets of the EU's Member States. Nevertheless, negotiations over whether to increase this cap will be politically fraught in a context where some Member States are under pressure to reduce national budget deficits.

Other issues at stake in the negotiations are the flexibility, conditionalities, structure and duration of the next MFF, and the sensitive question of whether to increase the EU's financial autonomy by endowing it with new and significant own resources.



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Background

With the current multiannual financial framework (MFF) for the 2014 to 2020 period entering its final stretch, the EU has started preparing its post-2020 budget plan. On 2 May 2018, the European Commission is expected to adopt a package of proposals for a new MFF and a new system of 'own resources' (OR), the expenditure and revenue side of the EU budget, respectively. This will lay the foundation for proposals for a new generation of spending programmes that the Commission is expected to start publishing on 29 May 2018. The EU is thus entering into a period of very important negotiations concerning not only financial issues, but also the vision of its priorities and action for the next decade.

The multiannual approach to spending was introduced by the European Communities in 1988, with the aim of strengthening budgetary discipline and making expenditure more predictable. Since then, legislative decisions with appreciable budgetary implications have had to comply with the multiannual financial framework.¹ [Article 312](#) of the Treaty on the Functioning of the European Union (TFEU) states that the MFF must cover a period of at least five years. In practice, in most cases its duration has been set at seven years.

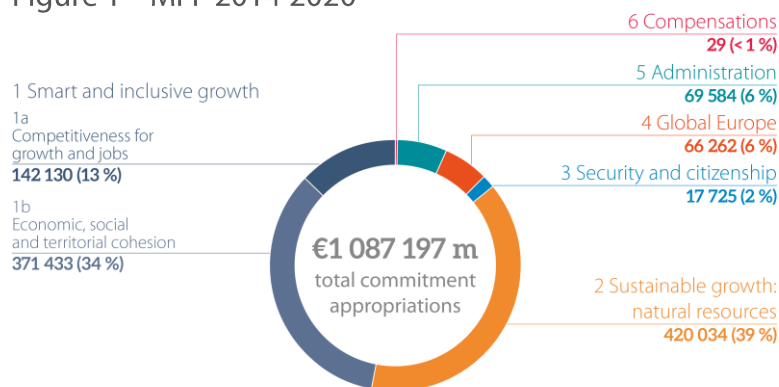
Each year, the budget is negotiated within the limits ('ceilings') set out in the MFF, i.e. the annual limits on EU commitments in different policy areas ('headings') and on overall annual payments. In other words, since the annual commitments are effectively legally binding promises by the EU to spend money, and do not necessarily lead to payments in the same year, there is also an annual maximum amount of payments that can be authorised for reimbursement. Annual payments are limited by a cap on the amount of revenue – or own resources – that the EU can raise each year to cover its spending – to 1.2 % of that year's gross national income (GNI). Own resources are the sources of revenue that the EU uses to finance its annual budget. Unlike national governments, the EU cannot at present raise taxes directly from its citizens, but instead relies primarily on revenue collected by Member States to finance expenditure. Moreover, the EU Treaties stipulate that 'the revenue and expenditure shown in the budget shall be in balance', which means that own resources must match spending: the EU budget cannot be in deficit.

The EU's budgets are thus subject to two important constraints: one on the amount of money that can be pledged in commitments, as set out in the MFF Regulation, and another on the amount of revenue that can be raised to honour those commitments, in the form of an annual 'own resources ceiling' stipulated in a separate Council Decision on own resources. Although this multiannual approach to financial planning has advantages, it can also prove restrictive. The benefits of predictability and stability must be set against the reduced scope to address unanticipated developments and new priorities.

The 2014-2020 multiannual financial framework

The current MFF (see Figure 1) covers the years 2014 to 2020, and is the EU's fifth consecutive multiannual financial plan. Amounting to €1.09 trillion (commitment appropriations), or roughly 1 % of EU GNI, it is the first MFF to be **smaller** than its predecessor (the 2007-2013 MFF). Negotiated against the backdrop of an economic downturn and fiscal consolidation in Europe, it was agreed only at the end of 2013, which led to delays in the start of implementation of the new spending programmes. Moreover, soon after it was established there was a dramatic

Figure 1 – MFF 2014-2020



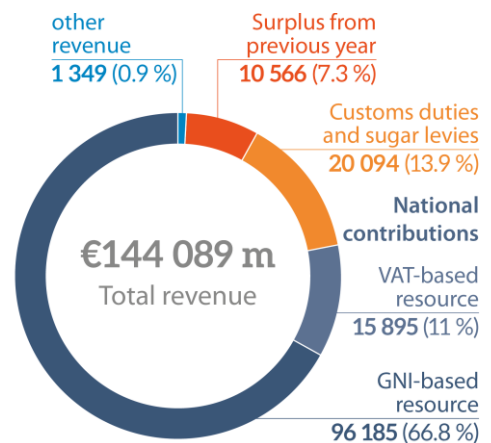
Data source: European Commission.

increase in the need for funding in some areas. The 2014-2020 MFF had to accommodate the EU's response to the refugee crisis, security issues, and environmental and climate commitments, as well as EU efforts to enhance economic growth and job creation. Part of this involved creating parallel financial structures co-financed by the EU budget, such as the Facility for Refugees in Turkey, the European Fund for Sustainable Development, and the European Fund for Strategic Investments. In addition, particularly in the years 2014, 2015 and 2016, the MFF had to absorb an abnormal [payments backlog](#) that had built up since 2011. As a result, the margins built into the MFF were quickly exhausted, and all 'last-resort' special and flexibility instruments available in the [MFF Regulation](#) had to be triggered, though a mid-term review and revision of the 2014-2020 MFF did provide an opportunity to introduce some modifications, increasing the EU's capacity to respond financially to unforeseen challenges in the remaining years.²

The current own resources system

The current system of own resources depends on three streams of revenue collected by Member States to finance expenditure: 'traditional own resources', consisting of 80 % of customs duties and sugar levies collected by Member States in accordance with the EU's common external tariffs (€20.1 billion in 2016, or 14 % of revenue – see Figure 2); an own resource made up of a percentage of the Member States' estimated income from value added tax (VAT) – €15.9 billion in 2016, or 11.1%; and an own resource based on a fixed percentage of Member States' GNI (€96.2 billion in 2016, or 66.8 %). There are other sources of revenue that complement own resources: taxes on EU staff salaries, contributions from non-EU countries to certain EU budget programmes, fines on companies for breaching competition law, and interest on late payments and fines. However, own resources account for the lion's share of EU revenue, amounting to €132.2 billion in 2016, compared with €1.4 billion in other revenue. There is sometimes also surplus revenue carried over from one financial year to the next: in 2016, the surplus carried over from 2015 was €10.6 billion. Own resources mobilised to cover EU budget spending are currently capped at 1.20 % of EU GNI per year.

Figure 2 – EU revenue in 2016



Source: [EPRS](#), based on European Commission, Financial report 2016.

Correction mechanisms

An important feature of the OR system as it stands today are the budgetary correction mechanisms, or discounts on the contributions of some Member States. The most significant of these in terms of size and political salience is the correction for the United Kingdom, or the 'UK rebate'. Introduced in 1985, the UK rebate is designed to offset 66 % of the UK's positive 'operating budgetary balance', or the difference between what the UK pays into the EU budget (excluding traditional own resources) and what it receives domestically in the form of public and private-sector receipts. The terms of the rebate have evolved over time, most notably in 2009 to exclude non-agricultural spending in Member States in central and eastern Europe that joined the EU after April 2004. This change was made to ensure the UK contributed proportionately to the costs of EU enlargement, for which it was one of the chief advocates. The rebate amounted to almost €5.9 billion in 2016, and is financed by a proportional increase in the contributions of the remaining Member States – though in the current 2014 to 2020 MFF period, fellow net contributor countries Germany, the Netherlands, Austria and Sweden are themselves entitled to a discount on their increased contribution, or a 'rebate on the rebate'. Separately, there are also smaller corrections for Denmark, Ireland and the UK related to their 'opt out' from some of the EU's justice and home affairs policies.³

Procedure and timeline

There are differences in the legislative procedure for the two elements of the package: the MFF regulation can only be adopted by the Council with Parliament's consent, whereas own resources decisions require merely that the Parliament be consulted. However, in its 14 March 2018 resolutions on the [post-2020 MFF](#) and [own resources](#) respectively, Parliament insisted that the proposals for the post-2020 MFF and own resources should be negotiated as a single package.

Procedure leading to the adoption of the MFF regulation

The EU's financial rules are stipulated in Articles 310-324 TFEU and concern the own resources, the multiannual financial framework, the annual budget and its implementation and discharge, as well as efforts to combat fraud. In line with [Article 312](#) TFEU, the MFF is adopted in the form of a regulation through a special legislative procedure, with the Council acting unanimously after receiving Parliament's consent expressed by absolute majority. Alternatively, the European Council may unanimously authorise the Council to act by a qualified majority when adopting the MFF regulation. In addition, Article 312(5) TFEU requires the European Parliament, the Council and the Commission to take any measure necessary to facilitate the adoption of the MFF. The procedure officially starts with the presentation of the Commission's proposal.

If there is no agreement before the end of the previous financial framework, the ceilings of the final year of that framework continue to apply in future years (adjusted for inflation). In addition, other provisions related to the implementation of the MFF remain in force until a new MFF is adopted.

The current MFF procedure was introduced by the Lisbon Treaty and applied for the first time to negotiations on the 2014-2020 MFF (previous multiannual financial plans were set out in an interinstitutional agreement between the European Parliament, the Council and the European Commission). According to Article 312(5) TFEU, all three institutions should be involved in the negotiating process, including at the highest political level in the form of a meeting of the three institutions' presidents (Article 324 TFEU). Although the Treaty does not mention the European Council as a co-legislator in the procedure (even if it can authorise the Council to act by a majority, Article 312(2)), in practice it plays a decisive role in the negotiations, and last time round it decided on many detailed aspects of the 2014-2020 MFF and its spending programmes.⁴

Procedure leading to the adoption of the own resources decision

Under Article 311 of the TFEU, own resources decisions are adopted unanimously by the Council and require only that the European Parliament be consulted. In addition, Council decisions on own resources only enter into force once approved by Member States 'in accordance with their respective constitutional requirements', which typically means approval by national parliaments. The current rules on own resources are set out in [Council Decision 2014/335/EU](#). Thus, new own resources decisions proposed by the Commission for the next multiannual financial framework will ultimately be decided by Member States, but Parliament will be consulted.

Timeline

It took [about two years](#) to prepare the current MFF. This time round, the Parliament has [called for](#) a swift agreement – within one year – ahead of the May 2019 European elections. This would allow the new programmes to start on 1 January 2021, and avoid the delays seen in the implementation of previous financial frameworks. The European Council has also stated that it would like to speed up the work on the MFF in comparison with previous negotiations. A more detailed negotiating timeline is expected once the Commission has published its proposals.

Unlike MFF regulations, own resources decisions apply indefinitely rather than for specific multiannual periods. However, a new decision is needed for the post-2020 period because of the departure of the United Kingdom, and with it the rationale for the various correction mechanisms specified in the current Own Resources Decision. The last decision was initially proposed by the

Commission in June 2011, adopted by the Council in May 2014, but only entered into force on 1 October 2016 once it had been ratified by all 28 Member States.

Negotiations on the next own resources decision may need to take into account parallel negotiations with the United Kingdom on its future relationship with the EU, and any financial contributions the UK may still make into the EU budget. According to the [draft withdrawal agreement](#) published by the Commission in March 2018, the UK will continue to participate in the implementation of the EU's budgets for the years 2019 and 2020, but negotiations on the draft text are ongoing.

Issues at stake

New priorities and Brexit

The preparation of the MFF is taking place amid a broader debate on the future of Europe. The UK's decision to withdraw from the EU, as well as the challenges created by the consequences of the economic crisis, the migration crisis and terrorist threats, have prompted debate on the EU's role. The Member States set out new political priorities in the [Bratislava declaration](#) in September 2016 and the [Rome declaration](#) in March 2017; now these must be translated into specific measures, which require financial means. Therefore, one of the key questions in the debate is how to make sure that new EU objectives in the areas of security and defence, protection of the EU's external borders, and asylum and migration policy are properly financed.

While new needs are emerging, existing budgetary priorities, such as support for young people, education, employment, research and innovation and combating climate change, remain relevant or have even grown in importance. Moreover, although the Commission has already [suggested](#) modernisation of, and cuts to spending on, cohesion and agricultural policy, these areas will remain a significant part of the EU's long-term budget.

In addition to a gap on the expenditure side created by new priorities, the EU is losing a major contributor to the budget, in the UK, and has to decide how to tackle the shortfall in budget revenue estimated at [€12-13 billion annually](#). Both the European Parliament and the European Commission agree that it may be difficult to close the two gaps without an increase in the budget to a little above the current 1 % of EU GNI and without a reform of own resources. [Comments](#) by Günther Oettinger, Commissioner for the Budget, suggest that the Commission will propose an increase to 1.1 % of EU GNI. The European Parliament called for an MFF ceiling of 1.3 % of EU GNI in its 14 March 2018 resolution. Moreover, a number of experts and think-tanks have proposed various approaches.⁵ Some countries, such as [France](#) and [Germany](#), have already expressed conditional willingness to increase their contribution to the EU budget. Others, such as [the Netherlands](#) and [Sweden](#), have registered their opposition.

Own resources

The EU's system of own resources is often criticised as complex, opaque and outdated.⁶ The prominence of the GNI resource and the system of rebates are thought to encourage Member States to focus on securing a *juste retour*, or 'fair return', from the EU budget, in the form of public and private sector receipts in their countries comparable to what they pay into the budget in own resources, instead of thinking strategically about how best to finance common objectives and

Figure 3 - Timeline for next MFF



European public goods. The logic of *juste retour* is tied to the notion of operating budgetary balances, which rely on elaborate calculations to produce a tally of net contributor and net beneficiary countries. The Commission routinely protests in its annual EU financial [reports](#) that these balances should be seen as mere 'accounting exercises' that fail to capture elements of European added value and the 'many other benefits' arising from EU policies, such as the development of the single market. However, many Member State governments value these balances when assessing planned EU spending, and they are likely to feature in negotiations on the post-2020 MFF and OR.

The departure of the United Kingdom, and with it the rationale for the UK rebate and thus the 'rebates on the rebate', offers an opportunity to simplify own resources, if only by abolishing or radically scaling back the use of such correction mechanisms.

In 2013, Parliament made its consent to the 2014-2020 MFF conditional on the creation of a High-Level Group on Own Resources (HLGOR) to consider options for reforming the system. The HLGOR published its [final report](#) in December 2016. The report concludes that 'the time is ripe for a comprehensive reform of the EU budget', but that reform of OR should be tied to reform of the expenditure side of the budget, i.e. the MFF. The HLGOR recommended that reform should reflect new EU spending priorities and the idea of European added value; and that any new resource should be more clearly linked to specific EU priorities such as the single market, energy union, or environmental and climate policy.⁷ These ideas were taken up in a June 2017 Commission [reflection paper](#) on the future of the EU's finances, setting out the budgetary implications of five future scenarios for EU action of varying scale and ambition. Ultimately, the HLGOR and the Commission conclude, the EU's system of revenue should depend on what the money is *for*, as set out in the MFF, and the MFF should in turn reflect the EU's political priorities, as agreed between Council and Parliament. Thus, OR and MFF reform are inextricably linked.

Flexibility

Experience implementing the last two MFFs revealed a pressing need for agility and for spare reserves in the EU's financial plans. The structure of the post-2020 MFF should facilitate a swift response to new challenges and unexpected events. Some of the changes discussed include introducing more options for shifting resources between and within headings, re-use of de-committed amounts, and the creation of a special crisis reserve and bigger margins under annual ceilings.⁸

Structure

The structure and headings of the new MFF are expected to reflect new EU priorities and a stronger focus on European public goods. For instance, the current structure does not reflect the EU's increased financial contribution to border management, migration and refugees, security and defence, and investment policy. Moreover, merging the current headings and reducing their number is seen as a way to enhance the MFF's flexibility and increase the scope for re-allocating resources between programmes.⁹ According to internal Commission documents leaked to [POLITICO](#), changes are also expected in the structure of EU spending programmes, reducing their total number from the current 60 to approximately 40, and in some cases renaming them.

Conditionalities

The role and scope of various conditionalities may increase in the post-2020 MFF. This has to do with strengthening the link between the EU budget and the EU's economic governance framework (for example, macro-conditionality of the European structural and investment funds and links with country-specific recommendations as part of the European Semester). The idea of creating stronger links between the disbursement of EU funds and respect for the rule of law has also been mentioned, but it may be difficult to reach consensus on this sensitive issue. There are also questions about the legal basis for such measures.¹⁰

Unity of the budget

Although the principle of the unity of the EU budget is included in the provisions of the Treaty of Lisbon (Article 310(1) TFEU), in practice many instruments and programmes are financed outside

the budget (giving rise to a 'European budgetary galaxy'). New instruments have proliferated in recent years, to finance EU actions in external policy (e.g. EU trust funds for external action, the Facility for Refugees in Turkey) and in investment policy (the European Fund for Strategic Investments) by pooling EU budget funds with additional contributions by Member States and others. Another example of an instrument that has remained outside the EU budget since its creation, even if it is mostly managed by the European Commission, is the European Development Fund (EDF). Discussion of setting up a euro-area-specific budget also has implications for the principle of unity of the EU budget. Therefore, the question of how to incorporate all these different elements and initiatives into the EU budget and ensure that they are subject to proper democratic scrutiny will be of importance during the negotiations on the next MFF.¹¹

Duration

According to the TFEU, the MFF should cover at least five years, but with the exception of the first (1988-1992), they have all covered seven years. The seven-year MFF is not synchronised with the five-year political cycle of the European Parliament and Commission. Therefore, as one of the European Parliament's [resolutions](#) states, 'some Parliaments will never be able to take fundamental budgetary decisions, since the financial framework adopted by their predecessors covers the entire parliamentary term in question'. The duration also impacts on the setting and achievement of strategic goals and the implementation of policies: the longer the planning period, the greater the need for mid-term reviews, opportunities to revise priorities and amounts, and flexibility mechanisms.

These questions surrounding the financing of EU priorities and the functioning of the MFF after 2020 are being discussed along with more fundamental issues, such as the European added value of the EU budget, a focus on delivering European public goods, improved performance and efficiency of spending and simplification of financial management rules. Practical aspects of the management and implementation of the EU budget will be changed with the entry into force of revised financial rules applicable to the EU budget, known as the financial regulation, or 'omnibus' regulation (see Parliamentary procedure file [2016/0282A\(COD\)](#)).

The EP's position before the Commission proposal

The Parliament has already presented its expectations regarding both the [post-2020 MFF](#) and [reform of own resources](#) in resolutions adopted on 14 March 2018. It called for the next MFF to provide the financial means to build a stronger and more ambitious Europe that is able to respond to unforeseen circumstances. In particular, Parliament stressed the need for a substantial boost to programmes delivering European public goods, such as those supporting research and innovation, young people and small and medium-sized enterprises, as well as for proper resources for the EU's role in managing pressing internal and external challenges, including in the areas of security, migration, and external border protection. Parliament estimates that, in order to ensure sufficient resources for traditional and new priorities, the MFF ceiling should increase, from the current 1.0%, to 1.3% of EU gross national income. It noted that new and 'genuine' EU own resources would be one way of financing this increase. As far as the duration of the next MFF is concerned, the European Parliament is in favour of a five plus five-year period, but is leaning towards accepting a seven-year MFF as a 'transitional solution', calling at the same time for a mandatory mid-term revision.

Parliament has long advocated reform of own resources, as evidenced by the importance it attached in 2013 to setting up the High Level Group. In its resolution, Parliament drew on the HLGOR report and recommended maintaining existing OR and progressively introducing new resources, which could be based on a revised VAT resource; a share of corporate tax revenue; seigniorage (central bank revenue accruing from the issuance of money); a financial transaction tax; a digital sector tax; or environmental taxes. Parliament argues that doing so would reduce the weight of the GNI-based resource, helping to shift Member States' focus away from securing a *juste retour* and towards funding common European objectives. The resolution also notes that Brexit presents an opportunity to abolish all rebates and corrections. Echoing the parallel resolution on the post-2020 MFF,

Parliament insists that new OR should underpin a higher level of EU spending, covering not only the loss of UK contributions but also additional spending on new priorities.

ENDNOTES

¹ The first three (1988-1992; 1993-1999; 2000-2006) were known as 'financial perspectives'. The provisions for 2007-2013 introduced the term multiannual financial framework – also used for 2014-2020 and in the Treaties.

² M. Sapala, [Mid-term review/revision of the MFF. Key issues at the outset of the debate](#), EPRS, European Parliament, January 2016; A. D'Alfonso, A. Delivorias, M. Szczepanski, [Economic and Budgetary Outlook for the European Union 2018](#), EPRS, European Parliament, January 2018, pp. 36-40.

³ For more on the history of the UK rebate and other rebates, and how they are calculated, see A. D'Alfonso, [The UK 'rebate' on the EU budget: An explanation of the abatement and other correction mechanisms](#), EPRS, February 2016.

⁴ As pointed out in an analysis of the European Council's involvement in the negotiations (see R. Drachenberg, [The European Council and the Multiannual Financial Framework](#), EPRS, February 2018), 'despite the lack of a formal role assigned to it in the financial provisions of the Treaties ..., the European Council ... played a central role in the 2014-2020 MFF negotiation'. On the basis of its over-arching competence to define the 'general political directions and priorities of the Union' (Article 15 TFEU), the European Council addressed the future MFF during nine meetings between 2010 and 2013, eventually adopting detailed conclusions that 'determined the Council's position on the MFF regulation and the accompanying legislative acts'. This practice, and the de facto legislative role played by the European Council, was criticised by Parliament in a 15 April 2014 [resolution](#) on the lessons to be learned from the 2014-2020 MFF negotiations.

⁵ See the Commissioner's speech at the '[Shaping our Future](#)' conference, 8 January 2018; see also J. Haas, E. Rubio, [Brexit and the EU budget: threat or opportunity?](#), Jacques Delors Institute & Bertelsmann Stiftung, Policy Paper 183, 16 January 2017; Z. Darvas, G. B. Wolff, [Rethinking the European Union's post-Brexit budget priorities](#), Policy Brief 1, Bruegel, March 2018.

⁶ For more on the debate about own resources reform, see A. D'Alfonso, [How the EU budget is financed: The 'own resources' system and the debate on its reform](#), EPRS, European Parliament, June 2014.

⁷ One of the candidates for new own resources examined in the HLGOR final report was a financial transaction tax (FTT). The Commission published a proposal for an FTT in 2011, but Member States were unable to reach consensus on the idea. Instead, 11 Member States chose to advance the idea through 'enhanced cooperation', but negotiations are ongoing in the Council. The fate of an EU FTT may provide some indication of how difficult it will be to negotiate new own resources.

⁸ Reflection paper on the future of EU finances, European Commission, 28 June 2017; [The next multiannual financial framework \(MFF\) and its flexibility](#), Policy Department for Budgetary Affairs, European Parliament, November 2017.

⁹ [The next multiannual financial framework \(MFF\) and its flexibility](#), Policy Department for Budgetary Affairs, European Parliament, November 2017.

¹⁰ There are questions about the legal basis for reducing financial support, the level of reduction in case of non-compliance, and the thematic link between conditionality and financial support, see: M. Kölling, [Policy conditionality – a new instrument in the EU budget post-2020?](#), *European Policy Analysis*, Sieps, November 2017; A. Łada, [Squaring the circle? EU budget negotiations after Brexit – considering CEE perspectives](#), Policy brief, Institute of Public Affairs and Bertelsmann Stiftung, January 2018, p. 10.

¹¹ R. Crowe, 'The Budgetary Galaxy', *European Constitutional Law Review*, Vol.13, pp. 428-452, 2017; [The next Multiannual Financial Framework \(MFF\) and the Unity of the EU budget](#), Policy Department for Budgetary Affairs, European Parliament, November 2017.

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