Report of the Presidency Conference on the Multiannual Financial Framework (MFF)

28 January 2016
Amsterdam

EU 2016

Foreword

It is with great pleasure that we present the report of the Presidency Conference on the Multiannual Financial Framework (MFF). The conference, which took place on 28 January 2016 in Amsterdam, brought together experts, practitioners and representatives of the parliaments and highest levels of government from all 28 Member States, the European Commission, the European Parliament and several other European organisations.

Focusing on the next MFF, those who attended reflected on and explored the possibilities for improving the system as we know it. The need to reform the MFF is obvious yet challenging. It is obvious given the multiple crises besetting Europe. It is challenging because of the delicate balance of interests cemented in the budget. The goal of the conference, therefore, was to facilitate an inclusive and interactive discussion to explore solutions to this puzzle, and to do so through an open and frank exchange of ideas.

In four parallel working groups participants discussed the main issues underpinning the MFF: What is an ideal budget? How can we finance the budget? How do we respond to new priorities? How do we negotiate the budget? The working method used in these sessions helped foster an active search for principles – old and new – and ideas to guide future thinking on these questions.

Throughout the discussions three principles took centre stage: flexibility, European Added Value (EAV) and subsidiarity. In an ever-changing world we need more flexibility: changing circumstances demand changed policies, and different policies demand different funding. EAV is a principle everyone can support, but it is notoriously difficult to define. Its prominence in the discussions underlines, however, the broadly shared wish to have a clear starting point or overarching framework for our European budget. The cherished principle of subsidiarity may provide the basis for such a framework. It may also be possible to define value in other than numerical terms, giving heed to the idea that 'our budget should be a reflection of our common values and aspirations'. Finally, the conference also served to support the notion that changes on the income side of the budget are closely linked to changes on the expenditure side.

The ideas shared and the discussions held during the conference will provide ample food for thought for the months to come. During the Presidency Conference, all those involved took an important first step in shifting our focus to the future. The Netherlands Council Presidency will follow up discussions during the informal meetings of the General Affairs Council (GAC) and the Economic and Financial Affairs Council (Ecofin) in April, with a view to continuing exploring possible ways forward. We do so with a real sense of purpose, a healthy dose of idealism, and with the conviction that in the end, any reform, no matter how small, will benefit all of us and the EU as a whole.

We thank all the speakers for their thought-provoking contributions and we thank all the participants for their active input during the working groups. Special thanks go to Vice-President Kristalina Georgieva for her stimulating keynote speech and to Jorge Núñez Ferrer for providing everyone with a well-written preparatory discussion paper.

Bert Koenders
Minister of Foreign Affairs

J.R.V.A. Dijsselbloem
Minister of Finance

Executive summary

Following the plenary opening speeches by Minister of Foreign Affairs Bert Koenders and Commission Vice-President Kristalina Georgieva, participants split up into four groups to take part in a separate session. Each session had the same set-up: after an introduction by the chair, the speakers kicked off with a short pitch focusing on possible principles for the MFF - a general rule that can guide future thinking on the MFF. Participants or principles during the ensuing discussion. The goal of these sessions was not to reach consensus but to have an open and frank exchange of ideas as a basis for future decision-making.

From the first session, the idea of European Added Value turned out to have broad support. Yet, the question remains how it can be defined. Many participants also underlined the need for a stronger link to the EU's citizens and for more flexibility to cope with new challenges.

In the second session a large part of the debate focused on the question where changes need to be made first: the expenditure side or in the system of own resources. During the plenary it was suggested that both could be altered at the same time. This session also discussed the effect of financial instruments on the current concept of net balances.

In the third session the discussion focused on different aspects of flexibility. One idea was to create a substantial general (crisis) margin with clear rules on how it can be accessed. The suggestion that the principle of entitlement be abandoned prompted a lively debate. Other ways of creating more flexibility included enlarging the budget, making greater use of financial instruments, and crowding in resources from the private sector.

Finally, in the fourth session the negotiation process itself was discussed. Ideas included a permanent Council chair for the MFF negotiations and aligning the duration of the MFF with the terms of the European Commission and European Parliament. Participants also discussed the adverse effect that the *juste retour* focus has on the negotiations.

During the final plenary discussion, the results of the morning sessions were discussed. There was a call to use an integrated approach to the budget in which the technical perspective, political perspective and also the concerns of citizens (values) are addressed. Many panellists talked about EAV and mentioned examples of European public goods such as Erasmus research and the EU's external borders. To tackle the question on how to measure EAV, it was suggested that EAV could be defined in other than numerical terms, by focusing on common values and political goals, for example.

Next to EAV, the idea to change expenditure and revenue at the same time was reiterated. The panel also discussed various aspects of flexibility. One idea specifically mentioned in this respect was to allocate substantially less of the budget to ensure a greater margin for contingencies. Finally, the discussion on the negotiation process centred on duration, repetition, and transparency. Shortening the duration of the MFF was flagged as a means of allowing more room for adapting the budget.

The panel concluded that all the participants had shown a high level of engagement during the conference and that the EU budget had proven to be not merely a technical matter, but also one shaped by politics and common values. The conference was closed by Minister of Finance Jeroen Dijsselbloem.

Contents

Programme

Presidency Conference on the MFF - 28 January 2016
Location: Marine Etablissement Amsterdam (official venue of the Netherlands EU Presidency), Kattenburgerstraat 7, Amsterdam

8:30	Coffee and registration
9:30	Opening statement by the Minister of Foreign Affairs, **Bert Koenders**
9:45	Keynote address by Commission Vice-President **Kristalina Georgieva**
10:15	Morning sessions (4 parallel workshops)

1. The 'Ideal' Budget
Chair: **Peter Javorčik (SLK)**
Speakers:
- *Jens Spahn (GER)*
- *Alexander Pechtold (NL)*
- *Kristalina Georgieva (VP CION)*

2. Financing the EU budget
Chair: **Robert de Groot (NL)**
Speakers:
- *Mario Monti (HLGOR)*
- *Janusz Lewandowski (EP)*
- *Jorge Núñez Ferrer (CEPS)*

3. Responding to New Priorities
Chair: **George Ciamba (RO)**
Speakers:
- *Alex Brenninkmeijer (ECA)*
- *Jyrki Katainen (VP CION)*
- *David Gauke (UK)*

4. The Negotiation Process
Chair: **Johan Krafft (SWE)**
Speakers:
- *Jan Gregor (CZ)*
- *Ben Knapen (NL)*
- *Jean Arthuis (EP)*

12:45	Lunch
13:45	Plenary panel discussion Moderator: **Bert Koenders** Panel: *Kristalina Georgieva, Jens Spahn, Mario Monti, Jean Arthuis, David Gauke, Alex Brenninkmeijer, Janusz Lewandowski*
15:00	Closing statement by the Minister of Finance **Jeroen Dijsselbloem**
15:15	Reception

Opening speech Bert Koenders

Your Excellencies, ladies and gentlemen,

Welcome to Amsterdam. And a special welcome to our keynote speaker today, European Commission Vice-President Kristalina Georgieva. I'd like to thank all of you for being part of today's Presidency Conference on the Multiannual Financial Framework – or 'MFF' for short.

This is a crucial time to discuss the topic, as our citizens and parliaments rightly ask for change. This event has come about because of the need to reform the MFF – a need which is obvious and challenging in equal measure. It is obvious given the multiple crises besetting Europe. During the deepest recession since the 1930s, the European Union struggled to make its budget more flexible in order to stabilise the economy. Europe is slowly emerging from the economic crisis, but now migration is forcing us to reconsider our priorities again. A European response is essential to safeguard our borders, to address the instability surrounding our continent and to provide refugees with the protection they need. Exposed to such great pressures, the limitations of the current framework are starting to show. The need for reform is also challenging, because of the delicate balance of interests reflected in the budget. Ill-conceived changes may undermine the entire structure. Instead of building trust between Member States, they could foment mutual distrust.

Today, I want us to explore how we can begin to solve that puzzle. Because maintaining the status quo simply isn't is an option. Our citizens have the right to expect more than that. Some of you have only just arrived here in Amsterdam, but I'd like to invite you right away to join me on a new journey. I want you to fast-forward to the year 2020. Imagine a meeting room in Brussels, early one Friday morning in February. After 28 caffeine-fuelled hours, we all look at each other, red-eyed, and breathe a sigh of relief. The new budget has been agreed. The first deadline passed a couple of days ago, and negotiations started two years ago. But we finally have a deal. The structure of the MFF has barely changed during those years of negotiations, but that doesn't really matter anymore. At least we have a deal – let's not think about this issue for another four years!

As soon as the agreement is announced to the waiting press, the pundits pounce on the numbers. They don't check whether we've really got the best possible budget for our citizens and businesses.

They only want to know which Member States got the largest allocations, and which are the biggest contributors. Who are the winners and who are the losers? For them, straight away, the budget is a scoreboard. The negotiations are seen as a zero-sum game in which one country's gain is another country's loss. When the amounts are more important than the activities they finance, the budget becomes an end in itself, instead of a means to achieve our plans for the future.

Of course, I'm exaggerating – but only a little. During the previous negotiations, the MFF was improved, but only on a number of points. There is more flexibility in the current budget for example, and spending has become more coherent with longer term policies like 'Europe 2020'. But the scenario I described to you is at least plausible, because it resonates with previous experience. During lengthy, difficult and sometimes frustrating negotiations, we manage mostly to maintain the status quo. In his excellent briefing paper, Jorge Núñez Ferrer of the Centre for European Policy Studies hits the nail on the head when he observes that 'the actual effectiveness of the budget has often been secondary in the negotiations'.

A budget that does not put effectiveness first should be cause for great concern. After all, our budget is – and I quote – 'not just a collection of numbers, but an expression of our values and aspirations'. These are the words of Jack Lew, the current United States Secretary of the Treasury. They hold as much truth for Europeans as they do for Americans. Treating the European Union budget as a scoreboard means neglecting our common European values and aspirations. It means ignoring the perspectives of our citizens.

European solidarity is already being put to the test. Trust in national institutions, trust in European institutions, and trust between Member States have all taken a knock in recent times. We can't afford the scoreboard approach, because it weakens the European Union's response to the grave challenges confronting us. Just look at some of the key issues today and in the years ahead:

- An arc of instability has emerged around the European Union, threatening our security and triggering record migration flows. Europe needs a stable and secure neighbourhood, and that requires partnerships with the countries around us.
- Our countries are only slowly recovering from the biggest economic crisis since the Great Depression. Europeans need decent jobs, which require investment and innovation.
- Our environment needs sustainable energy and climate policies. Just look at outcomes of the climate negotiations in Paris, which were a victory for diplomacy.

Our citizens deserve an EU budget that enables us to meet these challenges head-on. We urgently need to reconsider our budget and goals. The economic crisis and the migration crisis have laid bare the limitations of the Multiannual Financial Framework. This budget is not fit for purpose. It is not futureproof.

We shouldn't view the budget as if it were a scoreboard. Instead, we need to treat it as a storyboard. As any film director can confirm, a storyboard makes it possible to translate a vision into a specific plan of action. And that's exactly what the MFF should accomplish: it should help us translate our European values and aspirations into policies and programmes that allow us to reach our common objectives. Like a storyboard, a budget should turn visions and ideas into tangible results.

If we want to achieve a more satisfactory outcome in four years' time, we need to start thinking aloud and exchanging ideas. Now is the right time to do so. There is still a while to go before the next round of negotiations.

The top concern for all of us should be building a flexible and modern budget that is strongly linked to our common political priorities, and that takes the perspectives of our citizens much more seriously. We won't produce that budget today, but we can make a start.

I will identify a number of pressing dilemmas and I will also offer a few preliminary ideas, with the aim of kicking off a frank and open discussion.

The dilemmas are related to the four key themes for discussion in the workshops later on. First, we need to identify the main principles that should govern the Multiannual Financial Framework. In other words, what constitutes an 'ideal' budget? It needs to provide an effective response to short-term crises, but we also want a degree of predictable funding in the medium term. And should the budget enforce desirable behaviour at national level, fulfil needs that Member States can't meet, or encourage promising developments?

Second, we need to talk about how the budget is financed. In the current system, Member States essentially provide the resources. Has the time come to introduce genuine 'own resources'? In the course of this year, we can expect to see the final report from the High Level Group on Own Resources –I'm very honoured that its chairman, Mr Mario Monti, is here today. Is it possible to create a set of own resources that allows for fairness, stability and transparency?

The third dilemma relates to new priorities and flexibility. Inevitably, priorities and circumstances change over the years. As I mentioned, the current EU budget allows for some flexibility. Is more flexibility only possible by expanding these existing facilities? How can we ensure that we get fundamental reform instead of simply cosmetic changes?

Fourth, and finally, the negotiation process itself poses a special kind of challenge, which has to do with the focus on national net positions. Can we move beyond the scoreboard mentality I mentioned earlier, or would that pose too big a risk for nationally accountable politicians? Proceeding from our common European goals, we need to assess the degree of success in these negotiations using a different yardstick. What would that yardstick be? And what are our incentives to make this choice? Today's conference presents a unique opportunity to explore these questions, as we rarely discuss the negotiation process as such. The negotiations also need to be subject to proper democratic control.

Let's exchange ideas about how to make sure that parliaments are well-informed. Involvement starts with information, but it doesn't end there: it's also about participation. It's about national parliaments and the European Parliament providing direction. That's why I'm delighted to see so many elected representatives here today with us.

Tremendous variation exists concerning the ways national governments involve their parliaments. In the Netherlands, our parliament set the mandate before the start of the negotiations over the current MFF. During the negotiations, several updates about the state of play enabled the House of Representatives to make adjustments. And this time, our parliament is on top of the process even sooner; in fact, today's conference is the brainchild of Mr Alexander Pechtold of the Dutch House of Representatives, who is with us today as well.

As we hold the Council Presidency, I consider it our responsibility to take the initiative. The Presidency is not a Miss Universe contest – it's not enough simply to wish for peace and harmony and an end to all the world's problems. I want to actively help engineer solutions instead.

The Dutch Presidency wants to be an honest broker when it comes to existing positions, but it also wants to create room for new positions. To explore possible ways forward, with a real sense of purpose and a healthy dose of idealism, but without being naïve. In its Presidency role, the Netherlands is expected to come up with suggestions, to test the waters and to get a 'sense of the house'. We want to enable you all to reflect on these questions and to work together to see if we can generate some new ideas.

So let me share a couple of thoughts with you. And I stress that these are simply ideas at this stage. They have no formal status and are meant to elicit a response. I am thinking aloud, and I encourage you to do the same. I want to know what does and does not resonate. At this stage, let's not be afraid of challenging received wisdom. We are still charting the options, and the wider our horizon, the better.

Let's start with the cherished principle of subsidiarity. Say we apply the subsidiarity principle to the existing Multiannual Financial Framework, budget line by budget line. Let's subject all expenditures to a very strict and simple test: whether or not they offer 'European value added' to the maximum extent possible. Would we end up with the same budget, or with something radically different? For example, maybe we can improve the return on taxpayers' euros if we merged all current investment subsidies into a single, pan-European investment fund to foster economic growth.

Simplicity and quality go hand in hand. Mathematicians take great pride in elegance: solutions should be as succinct as possible. I think we can learn something from that ambition. Budgets that are complicated and muddled are usually lacking in effectiveness as well. So let's strive for a lean and mean MFF, because it will get us better results.

We also need to look at absorption capacity. A budget should never result in funds in search of projects. We can't spend resources if there is no capacity to absorb them. If we do, inevitably standards will fall. Perhaps an emphasis on performance-based budgeting could help to improve how EU funds are spent. But implementation is key. In theory, it makes sense to cut funding for ineffective policies. But in practice, the incentives are completely different: when results are lacking, there is often pressure to spend more money to make a policy work, not less. To avoid that pitfall, we need a proper feedback system. It should determine what happens when the results differ from our expectations.

Finally, I want to raise a fundamental issue about the MFF. I believe in the principle that in an ideal EU, the political priorities of the Union should come first, taking precedence over the exact financial outcomes. The budget needs to reflect the European Union's Strategic Agenda. It must be coherent with new political priorities: innovation, migration, external partnerships, to name a few. And the budget must show enough flexibility to accommodate future priorities that result from challenges we can't yet predict. It is a matter of urgency, as we can see every day.

Ladies and gentlemen,

We need an open and frank exchange of ideas, which we can only have if everyone is willing to commit to exploring new possibilities. I realise that what we're asking of you today is not easy. But we are in the right setting, at the right time, with the right participants, to start thinking about the next MFF. You only need to look at the many experts, practitioners, parliamentarians and high-level representatives from all over the EU to realise that.

The success of this event should not be measured only in terms of specific proposals or negotiating positions. After all, the formal process won't start until the Commission's midterm evaluation later this year, although Vice-President Georgieva might offer us a sneak preview in her keynote speech.

Instead, today's conference is intended to help shape mindsets and set the scene for further discussions in the months to follow. Its success will become apparent once the negotiations have been concluded.

So I invite you to share your ideas:
- Let's look at ways to make sure that the budget is not a zero-sum game, but a positive-sum game. Let's view the budget not as a scoreboard but as Europe's storyboard.
- Let's end the budget's path-dependency, with its rigid structure resulting from decisions made in a different age. Let's instead make sure that the budget is reality-dependent and future-proof.
- And finally, let's prevent the Multiannual Financial Framework from becoming an end in itself. Let's instead ensure the budget helps realise European citizens' collective values and aspirations.

I look forward to a day of fruitful discussions. Thank you.

Bert Koenders

Minister of Foreign Affairs
Ministry of Foreign Affairs, the Netherlands

Amsterdam, 28 January 2016, Presidency Conference on the Multiannual Financial Framework

http://english.eu2016.nl/documents/publications/2016/01/28/speech-bert-koenders-multiannual-financial-framework

Key note by Commission Vice-President Kristalina Georgieva

Amsterdam - 28 January 2016

Dear Minister Koenders, Honourable Members of the European Parliament, Dear Ministers, Dear colleagues, Ladies and Gentlemen,

I want to thank the Netherlands Presidency for bringing us together for this discussion of the European Union's budget and multiannual financial framework (MFF). It is the first post 2020 MFF conference that I am aware of. In fact, your conference marks the beginning of a 2-year process that should lead, by the end of 2017, to a proposal of the Commission for a new financial framework. So, this is a very welcome and timely initiative!

We're here today to talk about one percent.

One percent of the gross national income of the 28 EU Member States. Or expressed differently, 2% of public spending in the EU. Or differently again, 144 billion euro in payments in 2016.

That is the EU budget, in numbers.

We sometimes say that this is not a lot of money in the big scheme of things – EU GDP is around 14 trillion euro, global GDP is 78 trillion dollars. But it is not a small number either – 144 billion euro is roughly half all government spending in the Netherlands and EU transfers to some of our poorer Member States represent several percentage points of their GDP.

I know that you know this, but it's worth reminding ourselves again that we are talking about a sizeable amount of taxpayers' money here. So it is important that we use these funds in the best possible way, with the biggest possible impact for our people.

For me, that is what we are here to talk about today. That is what we should always talk about when we discuss the EU budget.

But before getting deeply into the EU budget, let's take a step back.

The world is changing. We all know it, we can see it every day. We see progress, we see how science improves our lives in terms of longer life expectancy, communication and travel possibilities. Even during the financial crisis the world's global wealth kept increasing. In the same vein, one billion people have been lifted out of poverty over the last 20 years and this is all for the better.

At the same time, the world has become more fragile. It is more prone to shocks, be economic ones, natural disasters or conflicts, often compounded by the fact that the fastest population growth has taken place in the areas the least able to cope with these shocks. This transformation has been accelerated by an interconnected world. Shortly after a visit to refugees camps a few years ago, as Commissioner for Humanitarian Aid, I wrote a blog titled "Trouble travels", reflecting on the need to do more for host countries to avoid troubles at home: most challenges are now global in nature, as we are seeing it with the financial and refugees crises, and with the impact of climate change.

The truth is that the political system has not changed as fast the world it tries to deal with. The nation-based political system show some strains in dealing with global challenges, and the different levels of governance have not managed to solve this conundrum yet. As one of the key levels of governance, the European Union is adjusting, but it is far from being easy.

We, in the European Union, we have had many years of success in bringing more and more integration: the creation of the Single Market was followed by the creation of the euro and of the Schengen regime, and marked by successful expansion rounds.

More recently, however, we have been limping from one crisis to another, starting with the financial crisis, which became an economic crisis, with tremendous impact on Greece, and now we have a refugee crisis and a serious threat to Schengen. All this has led some decision-makers and observers to state that the European Union is "looking into the abyss", with even its very survival being at stake. At a time when UK citizens' will is set to decide on their membership of this Union, populists across Europe are spreading the illusion that each country can protect itself from the effects of globalisation by building fences and disengaging from international cooperation.

So, there is gloom about Europe everywhere. This makes us forget how good and stable Europe is for our citizens. I think we sometimes lose sight of our strengths as we limp from one crisis to another.

We forget that our European Union has lifted up countries, through the process of enlargement, in a way that has no comparison in history. Among the countries worldwide that have jumped from middle-income to high income in the past 20 years, half are EU Member States.

The World Bank has published a report that defines Europe as a lifestyle superpower and the most equitable region in the world. We have one of the best Gini coefficients, which even went slightly down during the seven years of the crisis. Yet, countries that have suffered greatly from the crisis have seen inequality grow. Our welfare systems are being tested, and we realise that reform is needed to make them more sustainable.

We forget how good the EU is because the EU is actually still a young Union. Europe is older than the USA, but the EU is only 65 years old. Where was the USA 65 years after its independence? It did not have all its States: California and Texas were not part of the US. The US Dollar was not a single currency in all the US, and the civil war was still ahead. But times were different, people travelled on horses and developments were much slower then. In short, the EU has to overcome fragmentations much faster than other Unions in the world.

We forget that our fundamentals remain strong. Our economy is still the largest and one of the most open in the world, and we have been doing better. Investment is up, unemployment is down. All economies in the EU are growing, perhaps not as much as we would like to, but the aggregate figures are encouraging: the latest GDP growth forecast shows 2% increase for 2016 and 2.1% for 2017.

People often talk about 'more Europe' being necessary to deal with the challenges we face. Whether or not we need **more** Europe at the moment can be discussed. However, what we absolutely need right now is **better** Europe. And that applies to the EU budget as well.

So, what can the EU budget do within that complex set of interlinked internal and external challenges, and taking into account the diversity of needs and political preferences across the Union?

The EU budget is one tool within a much wider and larger set of policy, regulatory, fiscal and financial instruments we need to mobilise to tackle challenges at both European and international level.

This much wider toolbox has to be used in a way that the EU budget can get maximum value for money.

Because EU budget money is tight- in the current financial framework we need to do more, and better, with less. The challenges have increased, but the EU budget has not.

This has led me to launch a wide-ranging process throughout the Commission, with other EU institutions and with Member States with the aim of increasing the EU budget's **focus on results**. This strategy addresses 4 questions:

1. Where we spend our money – do we achieve EU added value?
2. How we spend our money – how can we get more out of each euro spent? And how can we ensure that the money is deployed rapidly to changing priorities?
3. How we are assessed – is the current methodology of error rate a fair representation?
4. And how do we communicate about the EU budget – how can we explain better to our citizens what the EU budget achieves?

This process will link up with the mid-term review of the MFF, which the Commission will present during the year; but it will also, I am convinced, inspire our work on the next (post-2020) MFF.

In the current MFF, considerable progress has been made already, on which we should build further. To give a few examples:

The 2014-2020 reform of the European Structural and Investment funds introduced a range of measures aimed at ensuring that the right framework conditions for effective investments are in place.

On that basis, a wide range of conditionalities have been introduced in all programming documents, including linking investment priorities with the relevant Country Specific Recommendations under the European Semester. Implementation is still at an early stage. The Commission will assess the functioning of these macro-economic conditionalities and, where necessary, make appropriate proposals.

We will also look at the functioning of financial instruments and their interplay with grants. The newly established European Fund for Strategic Investments is considerably increasing the EU budget's capacity to leverage public and private investments. In the first three months we have already mobilised EUR 50 billion across 22 Member States. 81,000 SMEs are already benefitting from the plan.
We are assessing in detail how our efforts to simplify the delivery of EU funds across the board are working out in practice, and whether further proposals can be tabled in the context of the mid-term review.

And we have made full use of the increased flexibility arrangements under the new MFF, not least to provide financing for refugees within and outside the Union. We have more than doubled the overall resources mobilised to address the refugee crisis to close to 10 billion euro in the years 2015-2016. EU trust funds for external action have been set up in order to provide a further tool for crisis management by aligning EU and national funding.

The budget also helped addressing the difficult circumstances encountered by farmers hit by the extension of the Russian embargo on certain imports. Additional measures for almost EUR 1 billion were included in the 2015 and 2016 budgets.

As to the Greek crisis, amendments made to the rules applying to cohesion spending should provide additional liquidity amounting to EUR 2 billion in 2015 and 2016 to Greece.

These flexibilities are crucial in the changing world that I described in the beginning of my speech. But they are also limited and may not suffice to cope with the new challenges we have been facing since the MFF was agreed.

After 1 year in the job of the budget Commissioner I still feel relatively new to this MFF world compared to many of you who are attending this conference today. Through my conversations and reading I have learned that the MFF and EU budget could be described as a sort of stable equilibrium between those who like agriculture, those who like cohesion and those who get a rebate. This equilibrium has served many of us well and has achieved financial peace in Europe which is a high value. However, the question is – and this is also pointed out in the input paper of this conference - if we have reached the moment where the financial and political costs of the status quo are larger than the costs of reform. From this I deduct that here are two schools of thought about the future MFF:

The first schools says that we need a radical change of the structure of the EU budget to respond to the priorities in this fast changing world – this would mean departing from the current equilibrium towards a new one. This will be a risky and uncertain enterprise but perhaps a necessary one.

The second schools says that the next MFF should keep the current equilibrium and follow the path of the current MFF to continue the process of gradual improvements as I have highlighted above: increasing the share of projects with a high EU added value, increasing performance, flexibility and the use of financial instruments, etc.

So I hope to get many insights into this fundamental choice from the discussion in today's conference!

Besides these, admittedly, very fundamental question I can see three sets of questions that the new MFF needs to address:

The **first set of questions** addresses how we can in practice focus the EU budget more on new priorities. For example, how can we accommodate the needs to address the refugee crisis – internally and particularly externally? This question is likely to occupy us in the medium and long-term. Wouldn't it be great European added value to invest in our neighbourhood to stabilise their economic and political situation, so that fewer people take upon them the dangerous journey to Europe? But the reflection on priorities has a wider remit: do we need to think about a radical reform of the current structure of the EU budget, or can we work with synergies and interoperability across current headings to make the budget more responsive?

For example, research and innovation are already financed both from the Horizon 2020 programme and cohesion policy. Trans-European Networks are financed both from the Connecting Europe Facility and the Cohesion Fund. Cohesion policy can in various ways provide financial assistance to refugees complementing financing from the Asylum, Migration and Integration Fund. This trend could be strengthened further and made easier and more flexible.

Linked to this, do we need to make the budget more agile and flexible, in particular in relation to pre-allocated envelopes? Another – related – question is if we should increasingly resort to instruments outside the EU budget framework to finance unexpected needs, such as the Trust Fund for Syria or the Refugee Facility for Turkey?

But there are of course more fundamental question with regard to the **two main spending areas** – agriculture and cohesion.

- Is the reformed CAP achieving a sufficiently high degree of European added value? Is the greening of the CAP working?
- Is the new cohesion policy delivering EU added value? Should we in this context reassess which countries and regions qualify for cohesion funding? The current MFF is split 56% for new MS (including Croatia) and 44% for the so-called old Member State. Is this balance still appropriate?

The **second set of questions** is linked to the ongoing reflections about the economic **governance of the Union**: What is the link between the future structural spending and the economic policy of the Union? Is macro-conditionality working to design better spending programmes reflecting the real economic needs of a Member State? Should perhaps a larger part of the funding be centralised on EU level to ensure that money is spent according to (EU) priorities? What is the interplay between cohesion policy and the EFSI ("Juncker plan") if the latter was to be continued beyond 2020?

There are also specific questions regarding the development of the Eurozone. Does the Eurozone need its own budget and if yes, for which purpose? How would such a budget be complementary to what we do in cohesion policy?

The **third set of questions** is linked to **financing the budget**: would a change to the financing side of the budget make some of these reforms easier? Would new genuine own resources, not transiting through national budgets, but collected by MS on behalf of the Union or by the Union itself facilitate it? Is this a chance to reform and simplify the own resources system, including the complicated system of rebates? And how would a potential Eurozone budget be financed?

There is the ongoing work carried out by the High-level Group on Own Resources under the chairmanship of Mario Monti, of which I am a member. It will submit its report by the end of this year and the Commission will take it into account when preparing its proposals.

Like any other budget, the EU budget needs to prove that it delivers added value (at European level) for the sacrifice that taxpayers do. This has to be the guiding question for our future reflections, not if it is 1% or more, or less. This is a budget that has the goal of making the biggest possible impact for as many people as possible across Europe. Businesses, researchers, farmers, students and communities.

So it is important that we use these funds in the best possible way.

The current seven-year budget has made progress in terms of making EU funds more effective and efficient. We will build on that and where possible make proposals under the mid-term review to improve further and to further align spending with priorities.

And we need to think ahead, in ambitious terms, for the post-2020 MFF. I just have outlined many questions – we will have to find answers to all of them in the next 2 years and I hope this conference will provide a good starting point in this process.

The EU is at a critical juncture. The EU budget alone cannot solve all the current problems but it can and must contribute in a significant way. Let's all work together to achieve this.

Thank you very much.
Kristalina Georgieva

Vice-President for Budget and Human Resources
European Commission

Amsterdam, 28 January 2016, Presidency Conference on the Multiannual Financial Framework

https://ec.europa.eu/commission/2014-2019/georgieva/announcements/speech-vice-president-kristalina-georgieva-eu-presidency-conference-multiannual-financial-framework_en

Morning sessions

Following the plenary opening the participants split up into four groups to take part in an individual session. Each session had the same set-up: after an introduction by the chair, the speakers kicked off with a short pitch. The participants were then invited to briefly discuss their ideas for relevant principles in small teams of three or four. Afterwards, the moderator asked each team to share their principles with the entire group. Principles were defined as a general rule that can guide future thinking on the MFF. The goal of the sessions was not to reach consensus but to have an open exchange of ideas as a basis for future decision-making.

To keep track of the ideas, all the principles presented by speakers and participants were noted and made visible on the screens in the rooms. Towards the end of the session, the chair summarised the main findings and asked the speakers to select a principle that would provide the basis for a plenary panel discussion in the afternoon. The output of the four sessions is summarised below. The final overview of principles, the 'Amsterdam Map', can be found on page 23. All the principles mentioned during the four sessions are listed in Annex C.

DISCLAIMER

The summaries provided are meant to give participants in the other sessions and those not present at the conference an overview of the ideas presented. The summaries are not exhaustive, nor can they be traced back to exact individual interventions made during the sessions.

Session 1 – The 'Ideal' Budget

Central question: 'What principles should guide the EU budget and its content?'

Speakers

Several speakers said that the EU is facing new challenges. These make it necessary to consider new ideas and new policies that focus on the challenges of today and the future, rather than on the challenges of yesterday. One example mentioned of a challenge of the past was the Common Agricultural Policy (CAP). However, while it is necessary to discuss today's objectives and priorities, it was difficult to establish common priorities underpinning the EU budget. Only when these were established would it become clear what it would take to implement these objectives. Speakers also said that flexibility and European Added Value (EAV) were key elements of a future budget and that greater citizen involvement should also be sought. Finally, it was mentioned that negotiations should avoid focusing too much on net balances.

"The overarching principle for an ideal budget should be that it unites"

Discussion

In the ensuing discussion participants talked about various principles. The discussion started off with the principle of subsidiarity: even the largest Member States are unable to solve certain issues by themselves and these should therefore be addressed at EU level. Budget coherence was put forward as another important principle. There are currently disparities between the structure of the budget and new challenges.

"We achieve more as a Union than alone at home"

The principle of performance was a second principle to be discussed. According to the group this should be of equal importance to the principles of subsidiarity and EAV. In reference to EAV, it was stated that there is no agreement on what EAV actually entails and that this should be clarified first. It was also mentioned that EAV and cohesion funds are not mutually exclusive; cohesion funds can generate EAV as well.

Various groups mentioned flexibility. The combination of core EU policies and new policies puts a burden on the budget, making more flexibility necessary, but also making it necessary to strike the right balance. To determine how such flexibility can be created, it was suggested that a framework be established with percentages for allocation across various policy goals and for flexibility. This would make the budget more responsive to new developments and foreign policy needs. It was proposed that since we do not yet know what our priorities will be after 2020, we should set aside 30% to be used flexibly. There was also a discussion about whether flexibility should be inside or outside the budget. Finally, a suggestion was made to link short-term and longer-term priorities so that longer-term priorities are not forgotten when crises occur in the short term.

Another topic discussed in this session was that of linking the budget to the EU citizens. One of the groups said the discussion on rebates does not add to a positive image of the MFF. Citizens should be taken into account when designing the MFF. A first step would to make more visible what the money is spend on. The EU also needs to ensure that goals are met in order to uphold its credibility.

"Make the MFF such that it helps sell the idea of Europe"

In this way, the MFF could be used to regain the confidence of our citizens. The MFF should be seen as a budget, not as a bank account. In this vein, transparency to ensure greater budget accountability towards citizens was mentioned as an important principle.

Participants discussed several other ideas and principles during the session, including the link between the budget, job creation, competitiveness and the internal market. Budget unity was cited as an important principle, but it should not become a pretext for forcing outcomes on Member States. Solidarity between Member States, regions and citizens was cited as another central principle. Participants also discussed the necessity of coherence between the budget and longer-term European strategies and common objectives, but were unable to agree on whether this would necessitate enlarging the budget or changing the spending pattern. A suggestion made from a different perspective was to build more conditionalities into the budget to ensure that targets are met, or to use the budget to support country specific recommendations. This would have to be coupled with clear instrumentation to determine what works and what does not work. Finally, to put an end to the discussion on winners and losers in the budget negotiations, own resources would have to be reviewed.

Concluding remarks

In the concluding remarks, transparency towards citizens was cited as one of the most important outcomes of the session: if citizens know where the money comes from and where it is being spent, this could establish the degree of accountability needed to make the other principles work. Other important principles that emerged from this session were flexibility, accountability and EAV, which begs the question of how it should be defined. There appeared to be a general consensus that the current budget has the potential to produce more EAV than it does at present. The final discussion led to a list of priorities, such as predictability and transparency. The matter of MFF unanimity was discussed briefly, coupled with the idea that a focus on unity in policy and budget implementation could help foster more unity on the budget.

Session 2 - Financing the EU Budget

Central question: 'What principles can guide the financing of the budget?'

Speakers

The session started with observations on the current system of Own Resources: while there is widespread dissatisfaction with the current system, this is the system that was adopted unanimously. Another speaker added that it is a stable system nevertheless. The presumed dissatisfaction means that everyone involved would have to reconsider policies and challenges at both national and EU level. It was further noted that if the EU wants to adapt its budget to new challenges, while at the same time upholding the principles of good financing, it should think of creative ways to find money, such as setting up trust funds, using extra-budgetary arrangements and devising other practical solutions to problems.

Those involved should, however, be aware of what this means for the EU budget. If the current system were to be maintained, *juste retour* thinking would continue to be justified. On the other hand, it was stated that the impact of financial instruments and new flows of resources from, for example, EFSI, would change the current balance between net paying and net receiving Member States. A switch between different Own Resources was suggested as another means of changing this way of thinking. One example would be to lower GNI contributions in times of economic crisis. Even though it would be difficult to reform the system of Own Resources, it would have to be tried. In general, a more dynamic approach could be the key to reform.

Discussion

The first principles mentioned in the discussion underlined the importance of transparency and simplification. A fair, simple and transparent system of own resources could enhance public trust.

"A fair, simple and transparent system of own resources could enhance public trust"

The GNI base best meets these requirements.

Another of the principles brought up was the need to secure a stable base for the budget. Sufficient resources would be required in order to achieve the envisaged objectives. It was suggested, however, that acceptance of a stable base of revenue would perhaps not always be necessary and that the Own Resource system could gain greater political acceptance if it were more fluid. For example, funds for categories of expenditure that are divided on the basis of relative GNI could also be collected exclusively on the basis of GNI. Another problem that came to light is the tension that exists between predictability and developments affecting the economies of Member States. In times of national austerity it is difficult to accept that the EU will not cut costs as well.

"A change in resources would be impossible without a change on the expenditure side"

A large part of the discussion centered on taxation, based on the underlying principle of cost effectiveness and efficiency. Some groups opposed additional taxes: generating extra revenue would also be possible by investing in better tax compliance. The EU could provide support for better tax collection and compliance, although this could also create a catch-22 situation as the extra taxes would need to be collected before they could be spent. If a direct EU tax were introduced, there would be a direct link to taxpayers. Making EU contributions directly linked to citizens was therefore highlighted as a way of eliminating the national element and the discussion between net contributors and net beneficiaries in the negotiation process. It was, however, concluded that it would be difficult to monitor how an EU tax is collected and that using tax as a new resource would require careful consideration.

EAV was also discussed. Some groups said that rebates and corrections could be seen as a having an adverse impact on EAV. Looking at the subject from a different perspective, the idea of having two budgets was introduced: one budget focusing on EAV and another on solidarity. Expenditure centered on real added value would not be subject to corrections, it was thought.

Finally, participants looked into the options for amending the system and questioned whether the revenue side or the expenditure side would need to change first. Most agreed that a change in resources would be impossible without a change on the expenditure side.

It was also suggested that with a stronger link both could change under a dual-track approach: a package to ensure significant changes on both the revenue and expenditure sides.

Concluding remarks

In the concluding part of the discussion, the idea of a 'package approach' was chosen as input for the plenary session in the afternoon. The principle that no new taxes should be created, was also selected, as were the principles of sufficiency and more flexibility in terms of own resources.

Session 3 – Responding to New Priorities

Central question: 'What principles should guide the flexibility of the budget? '

Speakers

At the beginning of the session it was mentioned that while flexibility is needed in the budget, it does not get a 'fair chance' due to distrust between institutions. It was said that the EU should work on mutual trust. Several ideas to generate more flexibility were mentioned. One way to generate funds for new priorities is to crowd-in the financing capacity of the public sector via special instruments, as has been done with the European Fund for Strategic Investment (EFSI).

Another idea to guarantee flexibility in the budget was to reduce the proportion of the budget that is pre-allocated, for example by shortening the duration for which funds are allocated to a specific region or goal. One suggestion put forward was creating a bigger contingency element or reserve for urgent needs. Lastly, it was suggested that flexibility could also be enhanced if the Member States agreed in advance how the EU should respond to new priorities and how it could reduce planned spending if necessary.

Other principles highlighted were EAV, solidarity and loyal cooperation (trust and credibility). It was suggested that a feedback mechanism be put in place to allow citizens to give their opinion on the priorities chosen in the budget.

Discussion

Many participants agreed on the need for flexibility in the budget. One group thought that flexibility should be part of the negotiations right from the start.

"Flexibility should be part of the negotiations right from the start"

The participants discussed a wide range of financial instruments for different goals. Some supported the idea of a substantial reserve capacity within the MFF as an important way to secure flexibility. One suggestion was to add unused funds and the surplus to the reserve. There would have to be strict criteria for using this capacity, based on clear and easy triggers agreed in advance.

Another idea put forward to create flexibility during the year was to introduce bigger margins under annual ceilings, for example by defining a minimum yearly margin in the MFF. It was also suggested to make sure funds can be shifted more easily between headings rather than within headings alone. To free up space in the current budget, a rigorous expense assessment could be carried out to ensure that the budget delivers the intended results. In this context, some participants proposed eliminating any spending that fails to produce the intended results. Some reflected that the MFF is fine as it is and that EAV is already incorporated in the Treaties.

"We should strengthen the capacity to respond to new priorities"

Several other aspects of flexibility were also discussed, including the idea of linking flexibility on the expenditure side to flexibility on the revenue side. One group suggested that flexibility could also be found outside the MFF, while another group stressed that the unity of the budget would still need to be respected and that no spending outside of the MFF would be possible. Several participants pleaded that the 'entitlement thinking' is blocking the EU's ability to shift funds when new priorities or challenges arise. There needs to be more willingness to relocate funds when it is necessary.

Concluding remarks

The session showed that there was general support for strengthening the capacity to respond to new priorities (flexibility) while taking into account commitments already made.

Since calls for greater flexibility are nothing new, the big challenge will be to find out what causes these good intentions to fade into the background during the negotiation process. More openness during the negotiations in the interest of stronger European convergence could be an important step forwards towards greater trust. It could also be useful in illustrating the need to reduce the proportion of the budget that is allocated in advance.

Finally, several concrete ideas to create greater flexibility where mentioned, such as creating more flexibility between headings, reducing the amount of funds that are pre-allocated to specific regions or goals at the start of the MFF and creating a larger reserve for unforeseen expenditures. Financial instruments were mentioned as an important way to generate funds for specific new priorities.

Session 4 - The Negotiation Process

Central question: 'Which principles should guide the negotiation process of the MFF?'

Speakers

A first point made about the negotiation process is that it takes too long: Member States basically repeat themselves at meeting after meeting over the course of two years.

> *"The negotiation process takes too long"*

The Council Secretariat then adds up all the figures and all the Member States present the outcome as their own victory. The deadlock between the Commission, European Parliament and net recipients on the one hand and net contributors on the other makes the process rather predictable.

Several ideas were put forward on how to improve the negotiation process. A first idea was that would be useful to divide the EU budget into smaller parts and negotiate these separately, thus trying to stimulate that on each part negotiations could focus more on substance, and less on the overall net position of each Member State. Another idea was that Member States should stop pushing for lower payments in the MFF, and that there should be greater logical coherence between consecutive annual budgets.

It was further mentioned that all parties involved should be transparent about their position right from the start, and negotiations should be held on the basis of mutual trust. A permanent Council chair for the MFF negotiations, similar to the Eurogroup arrangement, could help make for a smoother process.

> *"A permanent Council chair for the MFF negotiations could help make for a smoother process"*

Discussion

The discussion among participants mainly focused on European Added Value, which helps citizens understand EU budget. However, because EAV is highly political, views differed on how the principle should be applied. Attention was also paid to the principles of subsidiarity and flexibility. Applying both to the MFF could make it easier to address new challenges. So far, lack of flexibility has resulted in the creation of a number of extra-budgetary funds (such as the trust funds for Turkey, Africa and the Madad Fund).

For some, subsidiarity would entail doing as much as possible at national level and limiting the budget strictly to areas with true EAV. Improving competitiveness and external policy were given as examples. Switching grants to loans and other financial instruments would also be a way of enhancing budget effectiveness.

Many participants agreed that there should be less emphasis on *juste retour* and more on transparency of positions from the beginning.

> *"There should be less emphasis on juste retour and more on transparency of positions from the beginning"*

There was also support for the idea of aligning the timing and duration of the MFF with the term of the new Commission and the newly elected European Parliament. It would, however, be quite a challenge to achieve this before the next MFF. The group ended by discussing the involvement of national parliaments in the negotiation process. There was some objection to raising their involvement, as it would risk increasing the focus on *juste retour*.

Concluding remarks

At the end of the session the main speakers reflected on the discussion and expressed their support for the idea of carefully looking at which policies have true EAV, to inform about and to enhance support for the EU budget in society. EU external policy was cited as an area with clear added value. Changing the way the budget is financed was suggested as a means of changing the negotiation dynamics: since most of the EU's budget comes from Member States, *juste retour* remains a central theme in the negotiations. By focussing expenditure more on EAV, the discussion could become less focused on *juste retour*.

Amsterdam Map

Results of the Netherlands Presidency conference on the Multiannual Financial Framework (MFF)

What principles can guide the future Multiannual Financial Framework (MFF)?

Content

We should structure the MFF according to our objectives
- We should design a coherent MFF structure that aligns EU spending with European strategic priorities.
- We should use the MFF to support country-specific recommendations.
- We should use the principle of subsidiarity to avoid spending that could also be done nationally.
- We should use the MFF to strengthen solidarity between Member States, regions and citizens.
- We should use the MFF to enhance a digital single market that creates strong regions and jobs locally.
- We should make the MFF coherent with foreign policy objectives and securing the European neighbourhood.

We should connect the MFF to European citizens
- We should make the MFF democratically accountable and transparant towards citizens.
- We should use the MFF to connect the EU to citizens and win their support for the EU.

We should focus the content of the MFF on European Added Value and performance
- We should focus the MFF on policies with clear European Added Value.
- We should define the content on the basis of performance, requiring evidence that policies deliver results.
- We should remove spending that does not realize the intended results through a feedback system.

We should make the MFF future-oriented
- We need an MFF with foresight, based on clear priorities and capable of adapting to changing circumstances.
- We should include a mechanism in the MFF that balances short term and long term priorities.

Flexibility

We should build flexibility into the MFF to respond to new priorities
- We should use flexible spending for policies with clear European Added Value.
- We should use money flexibly between headings, not only within headings.
- We should reduce subsidies and use financial instruments instead, such as loans and guarantees.
- We should combine flexibility on the income side and flexibility on the spending side.
- We should have a rich diversity of financial instruments, to be able to serve different goals.
- We should respect the unity of the budget and not spend outside the MFF.

We should create reserve capacity within the MFF
- We should make unused money flow back into an EU reserve budget.
- We should not allocate all the budget into specific categories at the start of the MFF process to increase flexibility.
- We need a minimum amount of reserves which will not be pre-allocated, with strict criteria for use.
- We need bigger margins under annual ceilings, allowing flexibility throughout the year.

We need clear procedures that allow for flexibility
- We should have clear and easy triggers, agreed in advance, to release funds to respond to urgent priorities.
- We should build trust between European institutions regarding the flexibility in spending.

Financing

We need a simple system of Own Resources
- We should simplify national contributions to the EU level.
- We need a fair, simple and transparent Own Resources system to enhance public trust.
- We should not add new taxes to the Own Resources.
- We should take account of the cost effectiveness of new resources.
- We should work on the basis of purchasing power when calculating contributions.

We need to provide the EU with better sources of revenue
- We need sufficient value adding resources and sufficiently flexible resources.
- We should increase revenue by improving tax collection in Member States, creating the right incentives.
- We should use EU policies and direct contributions from citizens to finance the MFF.
- We should tax harmful consumer behavior instead of good behavior.

We need to look at the revenue and expenditure side simultaneously
- We need a package approach for changes on the revenue and expenditure sides (dual track approach).
- We should keep the equilibrium of the EU budget, avoiding EU debt for future generations.

Negotiating

We need to structure the negotiation process step by step
- We should make clear before negotiations what we are going to discuss when: duration, goals, budget.
- We should be transparant on the starting position of Member States before entering negotiations.
- We should start by negotiating the burden and benefit sharing formula first, solving 'juste-retour' negotiations directly.
- We should agree on common goals first (expressed in European Added Value) before negotiating amounts and budgets.
- We should divide the MFF in different parts and negotiate these parts on the basis of different principles.

We should connect the MFF negotiation process to European citizens
- We should stimulate European citizens and representatives to participate in the negotiation process.
- We should actively involve and engage national parliaments in the negotiation process.

We need clear and simple procedures for the negotiation process
- We should appoint a permanent chair for the negotiation process.
- We should align the timing and duration of negotiations with the election cycle of the European Parliament and Commission.
- We should limit the negotiation time, for instance cutting it in half by starting a few months before the deadline.
- We should decide on the MFF without vetoes.

This map provides an overview of the results of four workshops held during the Netherlands Presidency conference on the MFF in Amsterdam on the 28th of January 2016. Over 150 participants from across the European Union, divided over these four workshops, participated in an open conversation on the principles that could guide the future MFF.

The goal of these workshops was to have a free and open exchange of ideas, without necessarily reaching consensus. The principles do not reflect agreement on behalf of the participants, or the view of the Netherlands Presidency. The principles presented here may also be opposed to each other.

This map gives an overview of the combined results from the four workshops in four categories. The complete list of principles from each workshop, as they were shared during the workshops, can be found in the Annex to the conference report.

The Presidency conference was organized in order to start the discussion on the next MFF at an early stage. The principles in this map should be considered a first step, serving as a point of departure for future discussion on improving the next MFF.

Commissioned by: EU 2016

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Plenary panel discussion

After lunch, all the participants took part in a plenary session to discuss the results of the morning sessions.

Summary of the morning sessions

The discussion started with a short summary of the morning sessions. The idea of added value from the first session turned out to have broad support. But the question remains how to define it and whether it in fact means something different to each party in the MFF. Many participants underlined the need for greater transparency towards the EU's citizens, as well as the need for more flexibility to cope with new challenges.

In the second session a large part of the debate focused on where changes need to be made first: on the expenditure side or in the system of own resources. During the plenary session it was suggested that both could be altered at the same time. This session also discussed the effect of financial instruments on the current concept of net balances.

In the third session, on new priorities, the discussion focused on different aspects of flexibility. One idea was to create a substantial general (crisis) margin with clear rules on how it can be accessed. The suggestion that the principle of entitlement be abandoned prompted a lively debate. Other ways of creating more flexibility included enlarging the budget, making greater use of financial instruments, and crowding in resources from the private sector.

Finally, in the fourth session the negotiation process itself was discussed. Ideas included a permanent Council chair for the MFF negotiations and aligning the duration of the MFF with the terms of the European Commission and European Parliament. Participants also discussed the adverse effect that the *juste retour* focus has on the negotiations.

Panel discussion

The results of the open and interactive discussions in the morning sessions proved a good starting point for the panellists. The ten principles selected at the end of the morning sessions were displayed on the screens for everyone to see. The panellists spent the rest of the session discussing various subjects relating to the four main topics of the conference.

10 principles
We should focus the MFF on policies with clear European Added Value.
We should make the MFF democratically accountable and transparent towards citizens.
We should not add new taxes to the own resources (fiscal neutrality).
We need sufficient value-adding and flexible own resources.
We need a package approach for changes on the revenue and expenditure sides (dual-track approach).
We need to create more flexibility at the start of the MFF process, by not allocating all the budget to specific categories.
We should make more use of flexible financial instruments based on European Added Value.
We should have a feedback system that eliminates spending that fails to achieve the intended results.
We need to establish a clear definition of European Added Value.
We should start by negotiating the goals of the MFF, expressed in terms of European Added Value.

There was a call to make the budget more than the sum of 28 individual perspectives on the budget. What is needed instead is an integrated approach in which the technical perspective, political perspective and also the concerns of citizens (values) are addressed. This resonated with earlier calls to create a stronger link between citizens and the EU budget. The political perspective was also part of the idea to streamline the budget based on the EU's Country Specific Recommendations (CSRs), by providing financing for the recommendations made.

Many panellists talked about EAV and mentioned examples of European public goods, such as Erasmus research and the EU's external borders. To tackle the question of how to measure EAV, it was suggested that EAV could be defined in other than numerical terms, by focusing on common values and political goals, for example. Another idea put forward was to define EAV by taking a rigorous look at spending and determining where most value for money is generated: a cycle path in an already affluent region would not be a good example of EAV. Finally, it was said during the plenary discussion that focusing on results would require a continuous feedback mechanism to ensure maximum added value.

Alongside EAV, the plenary discussion also looked at taxation and, more broadly, the revenue side of the budget. Some speakers supported the idea of direct EU taxation, whereas other speakers were more reticent. While there is criticism on the revenue side, the system of own resources was also mentioned as a stable flow of income for the EU and as a means of taxing member states for the benefit of European cooperation. The idea of making changes to expenditure and revenue at the same time was mentioned again in the afternoon session. This would require a more political approach and therefore a different strategy than in the past.

The panel also discussed various aspects of flexibility. The migration crisis was one example that showed the difficulty the EU currently has in providing a quick and flexible response. One idea specifically mentioned in this respect was to allocate substantially less of the budget to ensure a greater margin for contingencies, as opposed to the current practice of allocating the budget in advance for seven years to come. In response to this, it was noted that this would pose the challenge of creating a bigger margin without undermining the budget's predictability. Such a proposal would also need to be accompanied by clear rules on the point at which unused resources would need be returned or cut back. During the panel discussion, flexibility for national budgets – as part of and the Stability and Growth Pact – was also mentioned briefly as a means of leveraging public opinion in support of European cooperation.

Are we a driver behind the wheel of the car looking in the rearview mirror, or are we focusing on the road ahead?

Finally, the session on the negotiation process centred on duration, repetition and transparency. Shortening the duration of the MFF was flagged as a means of allowing more room for adapting the budget. The negotiations themselves, which often include countries repeating their position several times over, could also be shortened so that they start just three months before the deadline rather than two years. Furthermore, it was suggested that greater transparency during the negotiations could lead to greater trust among citizens. The idea of creating a permanent Council chair for the MFF negotiations was reiterated.

The panel concluded that all the participants had shown a high level of engagement during the conference and that the EU budget had proven to be not merely a technical matter, but also one shaped by politics and common values.

Closing statement by Minister Jeroen Dijsselbloem

Ladies and gentlemen,

Today has been a milestone. Representatives of all the 28 national parliaments of the Member States are here today. Our colleagues from the European Commission, the European Parliament, the European Court of Auditors and a number of interest groups have also attended. It was the first step towards the next Multiannual Financial Framework. We all know how difficult it is, so it's best to start early.

I know the next round of negotiations on the multiannual budget still seems far away, as the next period will only start in 2021. But this first step is important. So in what follows, I would like to talk about:

- The importance of the Multiannual Financial Framework.
- How today has contributed to the future of the European budget.
- And the steps we are going to take in the future.

The European budget benefits all EU-members – and 500 million Europeans - in different ways. For many of us, it provides funds for structural investments and supports economic growth, employment and social cohesion. For instance through the European Regional Development Fund, or the European Social Fund. But the MFF is also necessary for innovation and education and contributes to the long-term development of the European economy. For example Horizon2020 and the Erasmus programme. In my mind two excellent examples of European added value. The point is that we all benefit in some way.

We should always keep in mind: 'For whom are we doing this?' Not for us. Not for parliaments even. But for the EU-citizens. All of them.

However, there is no such thing as free money. So I want to make some preliminary points, before getting to the results of today's conference.

First of all, the financial, economic and debt crises have hit Europe hard over the past years. This has increased the pressure on national governments and the way they spend their budget. In the same way we all do in our domestic budget decisions, we should ask ourselves time and time again how we can maximize the added value of the EU-budget. I am pleased vice president Georgieva has taken the lead today, as she is pushing for better results from the EU-budget. It is our responsibility to make every euro count. And given that the EU-budget is limited, it is our responsibility to make the right choices where and on what to spend it.

Secondly, we have already made some important and necessary choices in this context.

- With the Juncker-plan the European Fund for Strategic Investments has been introduced and funded within the existing budget ceilings: An important accomplishment.
- We are maximizing implementation of programmes from the former budget.
- And, most importantly, we have reacted to the migration crisis by reserving higher than expected funding within the existing framework.

These choices were all necessary, but they have also put a great strain on our funds and have limited our future flexibility. It has become crystal clear, in my mind, that we are able to react to changing circumstances, but at the moment, we are stretching the flexibility to the very limit, and we are not even halfway the current MFF period which runs until 2020.

Thirdly and lastly, we need to be flexible to be as effective as possible – and I'm saying this as a net-contributor. But we can all see that changing circumstances demand changed policies. And different policies demand different funding. We should therefore shift our focus to the future. I hope today has made you all realize a forward looking focus is what Europe needs and demands from us as policy makers. That brings me to today's results.

Your presence here today and your contributions to the conference are a first and important step in designing the next MFF. I am proud of this. I'm glad that we could host this meeting under the Dutch Presidency. And I'm happy that we were able to give all of you the opportunity to speak today and share your ideas and thoughts.

We consider the collected principles on all four individual subjects today as points of guidance for the future MFF. Let me shortly react to a few:

First of all the balance between flexibility and long term investments. The current budget ensures Member States, different regions and even individual institutions of sufficient funds for long term investments. I believe these investments are needed to prepare Europe for the future. However, the changing circumstances demand flexibility of the EU-budget to respond to unforeseen events. As I have already stated, we have been able to react to these circumstances, but we are reaching the very limits of what we can accommodate.

Today, you discussed principles for a flexible budget, without losing the certainty of long-term investments for Europe. Thank you for valuable new ideas, like reserving a larger part of the budget for unforeseen circumstances, next to funds and new financial instruments for long-term investments and/or Cohesion policy.

In addition, I would like to point to the opportunity to cooperate as close as possible with private institutions. Let us combine our sources in funding and investing in the future of Europe, thereby increasing our financial strength and efficiency. In addition, let us increase investments over subsidies. Both "principles" would help to relieve the currently so apparent tension between investments and reacting to unforeseen circumstances.

The upsides of a more flexible budget are clear. If we look at the current migration crisis, this could provide for the necessary ability to unite and react collectively through the EU-budget, as the value added of such a joint response is, in my mind, undisputed. I sincerely hope your discussion today has contributed to future solutions to find that flexibility can deal with the issue.

Secondly, there is trade-off in balancing the various goals of the EU-budget, from solidarity to subsidiarity. Via the EU-budget, we fund, finance and contribute to a great number of projects, goals and beneficiaries. And given the budgetary constraints, this leads to an intense debate. I have been in such debates as well, overhearing principles such as subsidiarity, solidarity, added value, focus on results, and various combinations hereof. Many of these inherent goals of the EU-budget have been discussed today as well and we need to continue this debate.

Lastly, we cannot discuss the expenditure side of the budget without discussing its financing. This financing needs to be fair and transparent. The current financing of the EU-budget is, however, too complicated, and not transparent enough. We all know why. We finance the budget via different sources, we use different methods to calculate our contributions, and we revise our contributions afterwards up until four years looking back after closing the budget. In short: these practices lack transparency and do not contribute to – or even limit – a thorough discussion on shaping the expenditure side of the budget, because there is a trade-off between financing and expenditure. Only if we are more transparent about this we can learn from each other, for example via best practices.

Today has been helpful for this issue. I am grateful Mr. Mario Monti is present here today and was able to join this discussion. I hope the outcomes will assist him in completing his work for the High Level Group Own Resources. We will welcome you, mr. Monti, in February's Ecofin meeting

Although I'm closing the conference today, our work doesn't end here. On the contrary, it has only just begun. So how do we continue?

I can promise you that we, the presidency, will continue the work. We will host an open discussion on the MFF and the EU-budget during the informal General Affairs Council in April. Moreover, we will take that same discussion to the informal ECOFIN at the end of April as well. We hope to lay some groundwork for the next presidencies to build on.

In parallel, we want to get the basics of the budgetary process right – which can be done on the short term – by improving the transparency, simplicity and predictability. During the Dutch Presidency we are therefore working on simplifying these basic elements.

- To increase simplicity we hope to move towards a more straightforward budget calendar, with a limited and fixed number of amending budgets.
- To increase transparency we are cooperating with the Commission to provide more and detailed information on the implementation of the budget and the forecasting of future budget years.
- Lastly, to increase predictability, we hope we can conclude on revised regulation on the yearly rebalancing of GNI and VAT resources.

Getting the basics right is also crucial to maintain popular support for our contributions to the EU, as several of my colleagues and myself have experienced with the rebalancing of contributions in the fall of 2014.

We are determined to contribute to a better functioning of the MFF and the EU-budget during our presidency. You can rest assured that we will discuss these basic elements in the light of today's bigger picture during the informal ECOFIN in April.

Looking ahead, I also urge you to do your part. Go to your national parliaments, go to your constituencies, go to your stakeholders. Debate the suggested principles that we debated here. Most importantly, tell them how crucial it is that we negotiate a completely new MFF together and with an open, future-oriented attitude.
Thank you in advance for all your efforts.

Jeroen Dijsselbloem

Minister of Finance
Ministry of Finance, the Netherlands

Amsterdam, 28 January 2016, Presidency Conference on the Multiannual Financial Framework

https://www.rijksoverheid.nl/regering/inhoud/bewindspersonen/jeroen-dijsselbloem/documenten/toespraken/2016/01/28/multiannual-financial-framework

Annex A - Visual impression

For more images please visit:
https://www.flickr.com/photos/eu2016nl/albums/

Annex B - Briefing paper for the Presidency Conference on the Multiannual Financial Framework

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The objective of this paper is to promote a reflection on the future of the European Union's budget, based on the challenges presently faced by the EU. The positions presented are solely those of the author and in no way reflect the position of the Dutch Presidency.

1 The author would like to thank Jacques Le Cacheux, Giacomo Benedetto, Mathieu Saunier and Monica Alessi for their comments and assistance. The opinions, omissions or errors in this paper remain exclusively the responsibility of the author.

The 2003 Sapir report claimed that *"as it stands today, the EU budget is a historical relic. Expenditures, revenues and procedures are all inconsistent with the present and future state of EU integration."*[2] The report considered the budget out of line with the key objectives of the Lisbon strategy, which at the time was the main concern of the EU. Three enlargements and several unprecedented crises later, this statement still appears to hold true. Nevertheless, many reforms of the budget have been undertaken, but these seem still unsatisfactory or at least several steps behind the needs that arise.

Maybe the key to the EU budget ability to rise to the occasion is rooted in the way the decision-making process works. The budget structure has remained over decades surprisingly similar despite the increasing number of objectives.

When summarising the pattern of negotiations of the European Union's Multiannual Financial Framework (MFF), we can discern the following: The European Commission prepares a package of reforms for the next MFF, which attempts to integrate as much as possible new EU objectives into existing headings. It has generally avoided, where possible, to change too much the pre-allocated funding to Member States. It has, however, also attempted to add funding and/or shift funding to non pre-allocated centrally managed headings, such as the heading for research and development, the Connecting Europe Facility or other internal policies of the EU, and some to external action. Net contributors subsequently demand a strict payment ceiling, while beneficiaries of the various pre-allocated budget headings defend the transfers they benefit from.

Proper negotiations then start focusing on the distribution of the pie, i.e. a net balance negotiation, based on the public money transiting to and from the EU budget. At the last stages, the European Parliament intervenes to increase the agreed budget level, demands more flexibility or asks for additional review clauses in the mid-term period. A budget is agreed for seven years, much to the relief of all negotiators. This outcome is heralded as a success, because the EU still manages to agree on a budget despite the need for unanimity. The actual effectiveness of the budget has often been secondary in the negotiations.

The problem of this model of negotiations, is that it is dominated by the Council's and the European Commission's desire to minimise the changes to the budget to fit the priorities of the moment into an existing budget structure with an existing pre-allocation. Direct support budget lines in the Common Agricultural Policy are renamed, from compensation payments, to direct payments, to green payments. The Cohesion Policy introduces new permitted measures, more controls, more strategic guidance, adaptations to the maximum levels of support to avoid disturbing the distribution of funds. The European Parliament also has a controversial position, because it has no role in the revenue side of the budget, but only in the expenditure side, and thus will focus on demanding increases in the EU budget size. Nevertheless, the Parliament's power is still limited in this respect. In the last negotiations its influence has however been very important in other respects, namely in introducing a much needed (and now fully used) flexibility in the budget and imposing a deeper mid-term review, including on Own Resources.

The consequences can be summarised as the following:

- The main two priorities (and pre-allocated headings) of the budget have remained the biggest headings for decades: Agriculture and Cohesion, which represented 78% of the EU budget in 2014.
- While headings on research and development, cross border infrastructure, internal policies and external action have increased in size, they have difficulties to grow due to the resistance to reduce the main two headings and to the imposition of a tight budget ceiling.
- The main two headings are adapted to integrate the EU objectives through permitted measures, cross compliance, earmarking, strategic requirements, etc.
- The EU budget is rather rigid, with seven year frameworks limiting the possible changes in priorities and funding redistribution.
- Historical path dependency and rigidities have over time led to a budget that while reformed seems increasingly unfit to support the multiple objectives of the EU, as well as unable to respond to a world of rapid change in the areas of trade, finance and security.

On a more positive note, rigidities in the budget have led to important innovations. New financial instruments to expand the reach of the budget have been created, more flexibility has been introduced, and the quality of policies has increased.

Nevertheless, the budget has largely failed to accommodate the growing and rapidly evolving needs of the EU. The EU budget cannot be an effective financial arm of the EU if it needs to preserve the priorities and distribution of funding amongst member states, while keeping the same level of expenditures as % of GNI. The EU budget negotiations are very inward looking - a sort of internal power balancing structure - rather than a mechanism to ensure that the EU has the means and the policies required to address its key priorities. The EU's strong reliance on a regulatory approach, without a financial arm capable to

2 Sapir Report (2003), p.172

respond to multiple and changing challenges, gives citizens the impression that the EU is a "regulatory monster" which, however, fails to respond and protect them when needed. The benefits of the EU, such as free trade in the single market, are diluted by the existence of a freer global trade. Many see the EU as exposing citizens to shocks rather than protecting them, thereby fostering nationalism.

The budget has no financial clout in key areas where the EU is weak. This is not a surprise, but it brings up the question of whether the EU and its financial arm are fit for the challenges of today. This does not mean that the EU budget necessarily needs to intervene in every crisis; however, if it does not, what is the alternative instrument, and most importantly, what should the EU budget be for?

Have we reached the "inflection point", the moment where the financial and political costs of the status quo are larger than the financial and political cost of reform? This is the point which made the 1988 reforms possible according to Lindner (2006).

Here are some reflections on the four topics that will be addressed in the conference:

I. What budget does the European Union need?

The budget is still approached by many as a brinkmanship instrument, based on rights for financial transfers and rather questionable concepts of fairness and contributory net balances in the distribution of the EU budget, rather than the financial backing of the EU core needs and objectives. The introduction has described to what extent the EU budget is now unfit to address the needs of the EU. With a constrained budget it is imperative that it focuses where common action is imperative, i.e. those actions with a high European Value Added (EVA). Other expenditures should be in line with the solidarity principles of the EU.

Thus the EU budget should be focusing on actions generating an EVA and assisting cohesion. This is simpler said than done. Tarschys (2005 and 2011) and Núñez Ferrer and Tarschys (2012) and Heinemann (2015) address the difficulty of conceptualising what EVA means in practice. Without clear criteria most expenditures can be given a "European Value Added". Maybe the present combined pressures in the areas of energy, climate, security, competitiveness and economic growth are already giving a hint that a limited budget needs a flexible approach to how value added changes with circumstances, especially under a strict budget limit.

An agreement on those parts of the budget that address an EVA would need to be based on a number of criteria:

- Is the value generated higher than separate national actions?
- Who are the beneficiaries of those actions and is the distribution of funding and risk between the public and private sector appropriate ?
- Related to the above, what is the public good nature of the investment?
- What is the cross-border element of the investment?
- Are the costs in line with the proportionality principle?

In the case of support for cohesion, the funding is provided to support the financial burden of poorer countries to develop their economies and to achieve EU standards and objectives. In this case, for more local Value Added it is important to ask the following questions:

- Are the investments undertaken having a real impact on the economy or are they contributing to achieving EU standards and objectives?
- Is the project in line with the additionality principle?[3]
- Is the project in line with the proportionality principle?
- Is the financing in line with a "financial" subsidiarity/ solidarity principle, i.e. the local financial means do not allow to perform the investment?

These are just some of the questions that need to be taken into account when performing a review of the EU budget.

There is also a further reflection that needs to be mentioned for the future, namely where the EU budget stands with respect to the emerging calls for a 'Eurozone Budget' (Le Cacheux and Laurent, 2015). Does the EU budget have any role in the Eurozone or not? It has used its limited European Financial Stabilisation Mechanism (EFSM) instrument to help Greece, but has no role in the European Stability Mechanism (ESM). There is a need to clarify the role of instruments and review the role of the different institutions and the decision-making process. The EU is changing, but the structures required and the place of the EU budget within these structures is still not fully clarified. It is difficult to define the future reforms if the budget objectives are not clear within the European construct.

II. How best to organize the Own Resources of the European Union?

The Own Resources of the European Union have, over time, developed into a very complicated set of resources and rebates. There is a wide consensus that the EU Own Resources mechanism is unsatisfactory, but there is no agreement on what a good system should be. The assessment of the High Level Group on Own Resources led by Mario Monti presents a very detailed and precise review of the present mechanism and past proposals for reforms. The High Level Group will present proposals in 2016, based

3 The word appropriate is used, because it is in practice very difficult to find the "correct" distribution. Financial instruments are the one of the approaches today in search for balanced risk approaches.

on a reflection of the group and the result of an inter-institutional conference that will include national parliaments in June 2016. This is a difficult task, since previous reform attempts have failed so far.

On what principles should a new Own Resources system be based? We already have a system that ensures a high level of sufficiency and stability, but it has led to drawbacks. It fosters a net balance approach and thus promotes a rigid pre-allocation of funding, making EU funding distribution as a core negotiation issue, rather than being based on a policy rationale [4].

Principles that could be used to assess possible EU Own Resources:

EU Budget assessment criteria	
Global criterion	**Specific criterion**
Budgetary	Sufficiency
	Stability
	Budgetary discipline
Integration	Financial autonomy
	Transparency
	Link to EU policies
Efficiency	Economic efficiency
	Operating cost efficiency
Equity	Fairness
	Horizontal equity
	Vertical equity

Another aspect to take into account is a 'real' universality of the budget resources, i.e. not linked to expenditures (and thus also to net balances).

A difficult question to address is the kind of Own Resources to introduce. Every resource has its positive and negative features and there seems to be a strong resistance to allow the EU to have such resources. Taxes can have very different implications depending on the items taxed and their characteristics (Begg et al., 2008).
The following questions arise:

- Should the taxes reflect equity between Member States or citizens?
- On which metric should they be based?
- Who will set the rates?
- Should or can all new resources be considered fully owned by the EU?
- Can, if so needed, new resources be counted as part of the share of the GNI resource contribution?

The following table presents the different options for genuine Own Resources made by the European Commission reports leading to or accompanying proposals.

1998	2004	2011
CO_2 energy tax	EU energy tax	Taxes on the financial sector (financial transaction tax and financial activity tax)
Modified EU VAT	EU VAT	Auctioning revenues under the ETS
Excises on tobacco, alcohol and mineral oil	EU corporate income tax	Charges related to air transport
EU corporate income tax		EU VAT
Tax on transport and tele-communication services		EU energy tax
Income tax; interest income tax		EU corporate income tax
Tax on ECB gains from seniorage		

An interesting fact to reflect upon is that apart from the Common Customs Tariff, the Emissions Trading System is a clear EU tax, but revenues of which are not attributed to the EU budget. Making those a revenue is discussed in the annex to the European Commissions proposals in 2011, but not in the proposal itself.

Other issues to reflect upon are the possibility of taxes under reinforced cooperation (the case of Financial Transaction Tax, but maybe others as well), and what consequences would this bring, notably towards possible limitations to the harmonisation of the internal market for example?

Should there be a system of lump sum corrections or a generalised correction mechanism? The systems of corrections used until today or those proposed by the Commission have a number of drawbacks. They are first of all rather *ad hoc* and based on an increasingly flawed rationale, as explained in topic point IV below. If any system is introduced, it should be related to specific disagreements on specific expenditures (in line with the comment by the Court of Auditors[5] on the Commission's Own Resources reform proposals of 2011). This would allow clearer negotiations on reforms in the future.

4 For a highly critical analysis see Haug, Lamassoure and Verhofstadt (2011)

5 Court of Auditors, Opinion No 2/2012 of 20 March 2012, point 43

III. Is there a need for more flexibility in the European budget?

The MFF is negotiated for a period of seven years and while budget stability and predictability has its benefits, it may be a barrier to respond to uncertain times. The EU has been confronted in recent years with multiple events and growing instability, and the EU budget has encountered considerable difficulties in responding to those challenges. Thankfully, much could be achieved with the new flexibility instruments that were agreed at the end of the negotiations for the MFF 2014-2020, which the European Parliament insisted on.

The increased flexibility proved invaluable in 2015, as the European Commission managed to finance the European Fund for Strategic Investments (EFSI), compensate farmers affected by the Russian ban and help those affected by the milk price crisis, support Greece, fund actions to support Ukraine, frontload funding for the Youth Employment Initiative (YEI), and raise funding for the refugee crisis. This has been an unprecedented mobilisation under the flexibility instrument. As needs exceeded the EU budget's capacity some external action activities are being financed by trust funds outside the budget, i.e. the regional Trust Fund for Syria, and the Trust Fund for the Central African Republic.

For 2016, limited margins of approximately four billion Euro may be used for unexpected expenses, but this is less than what was needed in 2015. Furthermore, frontloading exercises, such as the one for the YEI, allow for future funding to be deployed earlier. If the funds are successfully used, but the situation does not improve, there might be a shortage of funds in the second half of this MFF. YEI is mainly a training programme and cannot generate employment demand for those participating if the economy does not improve.

A number of questions arise:

- What kind of flexibility is needed in the budget? Between headings, or also options to increase the ceiling? For the moment, the latter is ignored, while trust funds are *de facto* created to spend above the ceilings.
- Is flexibility acceptable if it first and foremost affects non pre-allocated headings which have high European value added? The headings used to finance the flexibility needs are mainly the Horizon 2020 and Connecting Europe Facility.
- Should budget lines which have low EU Value Added be cut (or obligations transferred to national budgets) to create a much larger contingency margin or even a substantial emergency fund to be called upon quickly when needs arise?

IV. Can we avoid a negotiating process dominated by *'juste-retour'* interests?

The debate on the resources and size of the EU budget is generally presented as a debate between 'egoistic' Member State treasuries and those defending 'EU common goods', but this is highly simplistic. There is a need to revisit the arguments, because they are out of date. Member States are also not fully "egoistic", as net contributors are not seeking the full reimbursement of the funds. It is worth noting that in 2014 the United Kingdom and Denmark, which are rather critical of the EU budget, met the 0,7% of GNP development aid targets (closely followed by the Netherlands) and well above the OECD 0,29% average (and higher than their 'net contributions' to the EU budget). It is thus questionable that "getting the money back" is the objective of critical Member States. There seems instead to be a clear animosity about the present objectives and use of the EU budget.

Studies frequently underline the notion and consequences of the "net balances", which focus on the monetary aspects of the financing of the EU budget and fully leave out of consideration the indirect benefits that all countries reap as a result of the economic and financial integration, such as notably the "four freedoms": free movement of goods, services, labour and capital. However, these studies often do not address the question whether the EU budget expenditures actually promote and benefit the EU, and whether the expenditures are financing the necessary actions to iron out the problems arising from this integration. Are these expenditures a precondition for the four freedoms to operate? Are the EU budget expenditures related to essential tasks of the EU? Member States may disagree because the EU budget does not seem to be fit for its purpose. The EU budget's lack of prioritisation of the Justice and Home Affairs budget, for example, has de facto led to considerable negative consequences in the refugee crisis.

The net balance disputes and the rebates may well be a reflection on how Member States value the importance of the EU budget expenditures, but a net balance approach is not a solution and actually exacerbates the weaknesses on the expenditure side.

Reforms are needed and the net balance approach needs to be changed radically. The present operational budgetary balances are not reflecting the nature of the budget today, nor do they lead to any improvement in the budget.

The factors calling for a profound change in the way the budget is discussed and negotiated are the following:

1. **With the increase in the pursuit of projects of common interest in structural headings, the European Value Added of many expenditure items has increased.** Net contributors have repeatedly asked for higher EU Value Added, and these changes are moving are in line with their demands. Improvements in the European Value Added of policies should weaken the net balance rationale. High European Value Added projects are not only to be found in the Horizon 2020 and Connecting Europe Facility headings. Also the EU regional and rural funding headings are increasingly being used to achieve common EU objectives, such as the reduction in greenhouse gas emissions, or to achieve levels of environmental protection often *de facto* based on the preferences of richer Member States.
2. **The increase in the use of Financial Instruments (FIs):** This relatively new and growing element further distances the EU budget source of finance from the location, size and impact of operations and expenditures. In addition, with the appearance of the EFSI, all FIs combined can potentially *mobilise investment funding* to a size matching and exceeding the Cohesion Policy. The benefits of those non pre-allocated instrument can be considerable. A net contributor may potentially benefit to a level exceeding its "net cost" of the EU budget to an extent that can no longer be ignored.
3. **The benefits of Financial Instruments and funding for research and innovation considerably affects the distribution of the financial impact of the EU budget:** The investment generated by those instruments is sizeable and cannot be ignored in calculations on the 'net returns'. Analysis of figures and evaluations show that finance mobilized by those instruments tends to be stronger in wealthier regions. Net balances are therefore becoming increasingly obsolete as a measure of the EU budget benefits to the Member States.

The combination of these three points should make Member States reconsider the way 'net balances' are used and corrections calculated. A possible reflection could be the following:

- Could the Member States agree which expenditure items are High Value Added and remove them from any correction? Those could then be financed by 'real' Own Resources.
- Can controversial headings be then financed by the GNI key and 'corrections' be negotiated that are in line with a measure of the 'disadvantage' or 'excess contribution' some Member States are subjected to?
- Can those corrections be subject to reviews based on reform progress in the controversial headings?

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Annex C - Principles per session

Please find below the full list of principles as noted down during the morning sessions.

Session 1: The Ideal Budget – ***What principles can guide the content of the MFF?***
We should use the budget to attain **multiple objectives** at the same time
We need an MFF with **foresight**, capable of adapting to circumstances and based on clear priorities
We should **define EU objectives first** and then structure the MFF accordingly
We should focus the MFF on **European Added Value**
We should make **spending coherent with priorities** defined in the European semester
We should focus the MFF on a **sustainable future**, project that can be done better on the European level than by Member States alone
We should create **income for the EU** from EU policies and citizens contributions
We should lift up **the performance principle** to the level of the European Value Added/subsidiarity principle. There should be evidence that the European level can deliver
We should define what **European Added Value** is and then structure the MFF accordingly, for example in order to strengthen European competitiveness
We should use the MFF to strengthen **solidarity** between **member states, regions and citizens**
We should have an MFF which **reflects the objectives** from the **treaties**
We should use the MFF and allow for **flexibility** to cope with **new challenges, balancing** them with **traditional policies**
We should leave the **Commission** free **to propose** the new MFF from a purely **EU perspective**
We should better **align** EU spending with **strategic priorities**
We should make the MFF a real 'framework', only **defining percentages** for **common priorities** like security and then **leaving 50 percent free to spend flexibly** during the 7 year period (either inside or outside the budget)
We should make the MFF **democratically accountable**, covering all EU spending
We should have an MFF, in **structure and size**, that **matches the priorities** that we have decided on
We should use the MFF to **enhance the digital single market** with a **strong regional character** and catalyzing jobs locally by increasing European cooperation
We should make the budget more **accountable through transparancy** towards citizens, what is financed where in Europe and what is the European Value Added and how are the objectives reached?
We should **respect the unity of the budget**, the MFF should cover all expenditures
We should define the MFF also **reflecting on the own resources to avoid a zero-sum game,** the MFF is not a bank account
We should use the MFF to **connect to citizens** and **win their support** for the EU
We should use an **instrument to define what spending is effective** and what not
We should make **spending coherent with foreign policy objectives** and securing the European neighbourhood
We should decide on the MFF **without vetoes**
We should make the budget **passing the test** of whether it **supports the unity of the Union** and not undermine it.
We should have an MFF which has a mechanism that links and **balances long term priorities and short term priorities**

Session 2: Financing the Budget – ***What principles can guide the financing of the MFF?***
We need to enhance public trust by having a **fair, simple and transparent OR** system
We need a **stable base of revenue** for the EU budget
We should **not create new taxes,** and adhere to the principle of fiscal neutrality
We should **increase revenue by better tax collection in Member States,** and create the right incentives to do so
We should bear in mind **cost effectiveness** of a new tax
We need **sufficient, value adding and flexible** Own Resources
We should subject reform of financing to reform of the expenditure side, and create a **two-part budget:** one part value added and one part solidarity-driven

We need a **package approach** for significant changes on the revenue and the expenditure side
We should get rid of the national element and **link revenue to citizens** (directly)
We should **tax 'bads' instead of 'goods'** and make it consumer based
We should take **purchasing power** into account
We should **keep the equilibrium** of the EU budget: no EU debt for future generations
We should finetune the **making available process** to the EU level (clear line assigned revenue)

Session 3: New Priorities – *What principles can guide the flexibility of the MFF?*
We need **more flexibility at the start** of the MFF process, by **not allocating all the budget** into specific categories
We should let money that is not used flow back into a **EU 'reserve' budget** (and not automatically back to Member States)
We should recognize that **budget size and flexibility are related**
We should look at **flexibility on the income side**, in addition to flexibility on the spending side
We should **get rid of the principle of 'entitlement'**, and replace it with for example a principle of merit
We should have **clear and easy triggers**, agreed in advance, to release funds to **respond to urgent new priorities**
We should use **flexible spending for common European goals**
We should use the **principle of subsidiarity** to clear the budget of spending that could also be done nationally
We should have a **feedback system** that leads to the **removal of spending** that doesn't realize the intended results
We should use the **principle of proportionality** to decide on the most efficient measure: budget, legislation etc.
We should be realistic about increasing flexibility, **reaching any agreement at all is a considerable achievement**
We should **introduce more financial instruments** into the MFF, while also **simplifying and harmonising** these instruments
We should have **different financial instruments** that encourage **merit-based investment,** outside of the political arena
We should take into the account the measure of financial complexity of member states, **allowing members a learning curve** when moving to **new financial instruments**
We should have a **rich diversity of financial instruments,** to be able to serve different goals ('different instruments for different goals)
We should have a **minimum amount of reserves which will not be pre-allocated,** with strict criteria for use
We should have a **balanced approach** between responding te new priorities, and the need for convergence and development throughout the EU
We should use flexible instruments in a way that is **visible to European citizens**
We should agree to **stick to our principles**
We should **encourage trust between European institutions** regarding the flexibility in spending
We should keep in mind the **possibilities for flexibility outside of the MFF**
We should **encourage flexibility between headings,** not only within headings
We should have **more margin under annual ceilings,** allowing flexibility throughout the year

Session 4: The Negotiation Process – *What principles can guide the negotiation of the MFF?*
We should appoint a **permanent chair** of the negotiation process
We should require **transparency on the starting position** of the Member States
We should strive for **more flexibility** in the MFF
We should apply the **principle of unity** of the budget
We should **reduce subsidies** and migrate to financial instruments (eg. loans and grants)
We should **limit the MFF to common European goals** (European Value Added)
We should **agree on the common goals** of the budget before negotiating amounts and budgets
We should **cut negotiation time in half,** e.g. only start a few months before the deadline
We should start negotiations with a **transparent proposal by the Commission**
We should **not allow repetition of stands**
We should **stimulate European citizens and representatives to participate** in negotiating
We should respect that **negotiating remains a political process**
We should start by negotiating the burden / benefit sharing model first and solve the **'juste-retour' principle at the start** of negotiations
We should first regard **subsidiarity as an option** before negotiating based on **'juste-retour'**
We should define **the budget in line with the EU2020 objectives**
We should **rebalance the budget** between the centrally managed budget and national budgets
We should as a second step **assess the costs of the pre-negotiated goals**
We should **not talk too long about principles**
We should **depoliticize the EU budget** as much as possible
We should **align the timing and duration of negotiations with the election cycle of the Commission and EP**
We should **give the new EC and EP as a first task** to formulate a proposal for the MFF
We should let the **budget reflect the objectives agreed** on upon
We should i**nvolve national parliaments more in the negotiations and create more engagement**
We should apply **a higher degree of honesty / realism** when discussing the European Value Added
We should recognize that **European Added Value does not automatically mean subsidiarity does not apply**
We should **keep a balance in the budget,** not only for economic but also for **social issues (e.g. employment)**
We should **formulate economic goals** at the start of the negotiation cycle

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