BRIEFING

2021-2027 MFF

Negotiations on the next MFF and the EU recovery instrument

Key issues ahead of the July European Council

SUMMARY

The current multiannual financial framework (MFF), also known as the EU's long-term budget, comes to an end this year. While the European Commission put forward a proposal for the next MFF and its financing in May 2018, agreement has so far proved elusive under legislative procedures that give a veto power to each Member State. In recent months, the unfinished negotiations have become intertwined with the debate on the creation of a common EU tool to counter the severe socio-economic consequences of the coronavirus pandemic. In May 2020, the Commission tabled revised proposals for a 2021-2027 MFF worth €1 100 billion and the EU own resources system, together with a proposal for a €750 billion recovery instrument, Next Generation EU (NGEU). The latter would be financed with funds borrowed on the capital markets to reinforce EU budgetary instruments in the 2021-2024 period. In addition, an amendment to the current MFF would provide a bridging solution to fund some recovery objectives this year already. The complex negotiations, which involve many different legislative procedures, are now entering a key phase. Issues expected to be under the spotlight include: the size of the MFF and of the NGEU and their interaction; reform of the financing system with the possible creation of new EU own resources; the breakdown of allocations (between policies and Member States); the contribution to the green transition; conditionalities (such as rules linking EU spending to the rule of law or to challenges identified in the European Semester); flexibility provisions to react to unforeseen events; the mix of grants and loans in the recovery instrument; and the repayment of funds borrowed under NGEU. European Council President Charles Michel has prepared a compromise package ahead of the July European Council meeting. If the Heads of State or Government find a political agreement, the next step will involve negotiations between Parliament and Council, since the former's consent is required in order for the MFF Regulation to be adopted. Parliament, which has been ready to negotiate on the basis of a detailed position since November 2018, is a strong advocate of a robust MFF and an ambitious recovery plan. It has stressed that it will not give its consent if the package does not include reform of the EU financing system, introducing new EU own resources.

In this Briefing

EPRS | European Parliamentary Research Service

Authors: Alessandro D'Alfonso, Marianna Pari, Magdalena Sapała

Members' Research Service

PE 652.014 – July 2020

EN

So far along the road to the new MFF

The EU's long-term budget, officially known as the multiannual financial framework (MFF), sets the annual limits ('ceilings') on EU commitments in different policy areas ('headings') and on overall annual payments for a period of at least five years, usually seven. The current MFF is in force until the end of 2020, but an agreement on the design of the next programming period has not yet been reached. Although the European Commission put forward its proposal for the new MFF on 2 May 2018, both the traditional complexity of the negotiations (each Member State has a veto) and exceptional circumstances have not favoured its rapid conclusion. Relevant events include the protracted withdrawal negotiations with the UK, the start of a new institutional cycle for the EU in 2019 (including the European elections and appointments of the presidents of the key EU institutions), and finally, major changes in the socio-economic situation caused by the outbreak of the coronavirus pandemic.

The package put forward by the Commission included the multiannual financial framework (MFF) for the years 2021-2027, changes to the EU's system of own resources and a regulation allowing the EU budget to be linked with the rule of law. This was followed by a series of sectoral legislative proposals for spending programmes and funds under the next MFF. Parliament, whose consent is required for the adoption of the MFF, has been ready to negotiate with the Council since 14 November 2018, when it voted its interim report including concrete amendments to the Commission proposals. The newly elected Parliament confirmed and updated its negotiating mandate in October 2019. However, negotiations in the Council and European Council have proved lengthy. Despite the efforts of successive presidencies (Bulgarian, Austrian, Romanian, Finnish and Croatian), and several opportunities for EU leaders to exchange views on the topic at European Council meetings (June, October and December 2019), agreement has proved elusive. A special two-day meeting, organised by Charles Michel on 20 February 2020, was the first to discuss the package in detail, but failed to find an agreement and ended without specifying next steps or dates in the negotiating process (see timeline of milestones in Annex 1).

Soon after that, the outbreak of the coronavirus and its far-reaching consequences for the EU economy and society changed the debate on future EU finances dramatically. On 23 April 2020, the European Council asked the Commission to come up with a proposal for a recovery fund of 'sufficient magnitude', and to clarify its link to the MFF. This idea then featured as part of the Franco-German initiative and in a non-paper from Austria, Denmark, the Netherlands and Sweden. On 27 May 2020, the Commission presented a comprehensive recovery package. It includes the amended proposals for the 2021-2027 MFF and for a decision on the system of own resources, the proposal for a regulation establishing a European Union recovery instrument (Next Generation EU) for the years 2021 to 2024, and a proposal to revise the current MFF in order to provide additional resources for urgent investments in relation to the coronavirus pandemic, or a 'bridging solution' (see Annex 3).

On 19 June, EU leaders held their first exchange of views on the package. Following that, European Council President Charles Michel conducted a series of bilateral negotiations with all the leaders and, on the basis of these discussions, put forward his proposal for the long-term budget, own resources and the recovery plan (see Annex 5 for an overview of expenditure under his proposals). Furthermore, with a view to finding a compromise on the package, he convened a special European Council meeting on 17 and 18 July 2020.

Key elements of the Commission proposals

Own resources

The financing system of the EU budget, which is set out in the Own Resources Decision, ranks among the most difficult pieces of EU legislation to reform in the light of the special legislative procedure requiring unanimity in Council and ratification by all Member States (see box on procedures in

Annex 2). Contrary to the MFF Regulation, the Own Resources Decision (currently 2014/335/EU) applies indefinitely. Substantially unchanged for more than 30 years, the system is deemed opaque and unfair by Parliament, which is consulted on the decision and has long pushed for its reform. The EU budget cannot run a deficit. While the Treaty provides the EU with financial autonomy, a budget-balancing resource based on gross national income (GNI) ensures the bulk of financing and is seen as a national contribution rather than a genuine EU own resource. This feature is deemed to have a negative impact on the broader budgetary negotiations, including on the expenditure side.

In May 2018, the European Commission proposed modifications in the financing system of the EU budget for the period after 2020, noting that the withdrawal of the United Kingdom (UK) from the EU and the potential contribution of the revenue side of the EU budget to wider EU objectives made the case for a new decision to be adopted. The proposal sought to address the European Parliament's longstanding demand for reform as well as relevant recommendations formulated by an interinstitutional High-Level Group on Own Resources.

In May 2020, the Commission amended its initial proposal taking account of the accrued uncertainties triggered by the impact of the coronavirus pandemic, with a view to empowering the EU to finance Next Generation EU, the proposed European recovery instrument (see below). Key elements expected to be at the heart of the negotiations are set out below.

Own resources ceiling. The maximum level of resources that can annually be called from the Member States is currently set at 1.20 % of the EU's total GNI. The Commission is proposing to raise this ceiling permanently to 1.40 %, to take account of: the smaller total GNI of the post-Brexit EU; the resources necessary to cover liabilities linked to the increasing use of instruments guaranteed against the EU budget; the integration of the European Development Fund into the MFF; and the uncertain economic outlook owing to the pandemic. In addition, a temporary increase in the ceiling, worth a further 0.60 % of EU GNI, would be devoted exclusively to borrowing operations for the financing of Next Generation EU and apply until December 2058 at the latest. This temporary increase aims to preserve the Union's AAA credit rating, while enabling the Commission to borrow on a much larger scale than in the past.

New own resources. In 2018, the Commission proposed the introduction of three new own resources linked to EU policies: a national contribution based on the quantity of non-recycled plastic packaging waste generated in each Member State (environmental objectives); a share of the revenues generated by the EU emissions trading system – ETS (fight against climate change); and an own resource based on a common consolidated corporate tax base (single market). In the revenue mix, the new resources would reduce the share of the GNI-based resource. In addition, at a later stage the Commission intends to put forward additional proposals for new own resources, such as a border carbon adjustment mechanism, an own resource based on operations of companies in the EU single market and a digital tax, with a view to contributing to the repayment of the resources borrowed under Next Generation EU as of 2028.

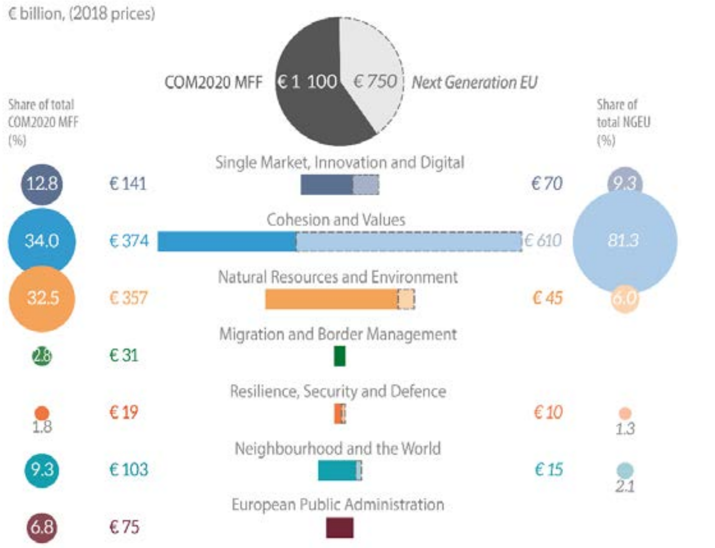
Correction mechanisms. For the 2014-2020 period, a set of correction mechanisms reduce the national contributions of Austria, Denmark, Germany, the Netherlands, and Sweden. In the light of the UK withdrawal and the disappearance of its rebate, the Commission initially proposed a phasing out of all corrections, often criticised as a source of opacity for the system, by 2025. Under the proposal for Next Generation EU and the revised MFF, the Commission now envisages a more gradual phasing-out of corrections.

Simplification. At present, Member States, which are responsible for collecting traditional own resources (mainly customs duties) on behalf of the EU, retain 20 % of what they collect to cover costs; this is sometimes seen as a hidden correction mechanism. The proposal would reduce this share to its traditional level of 10 %. The value added tax (VAT)-based own resource would be retained, but the complex formula used to calculate it would be simplified.

Amended proposal for the 2021-2027 MFF

As the first MFF package prepared for a Union of 27 Member States, an attempt was made to respond to the twin pressures affecting both the revenue and expenditure sides of the budget: the financial consequences of the withdrawal of the UK, a major net contributor, and an expected increase in financing needs for a number of priorities. As a result, in terms of the overall size (€1 134.5 billion in 2018 prices), the proposal of May 2018 for the years 2021 to 2027 was slightly lower than the 2014-2020 MFF (with the UK), and included some signs of the modernisation. The shifts in the structure of the spending priorities allowed for moderate reinforcements in such areas as research, innovation and digital transformation, young people, security and defence, migration, borders and external action.

Figure 1 – Breakdown of the Commission's May 2020 proposals on the MFF and NGEU



Source: EPRS, based on data from the European Commission, 2020.

When the coronavirus pandemic dramatically changed the socio-economic situation in the EU, the unfinished MFF negotiations appeared as an opportunity to introduce the measures needed to get the economy back on its feet. In the recovery package, together with the proposal for the temporary recovery instrument (Next Generation EU) amounting to €750 billion (see below), the Commission presented an amended proposal for the 2021-2027 MFF worth €1.1 trillion (all figures in this briefing are in 2018 prices except where otherwise stated). By channelling the resources from Next Generation EU through already planned and new EU budgetary programmes and instruments, the Commission significantly increased the overall amounts to be spent in the coming years for the recovery and resilience of the EU economy, but also introduced changes to the MFF structure and distribution of resources under individual headings (Figure 1).[1] Moreover, as the amended MFF proposal builds on the progress made in the negotiations, in particular the results of the meeting of EU leaders on 20 February 2020, it differs from the one put forward two years earlier in various respects. The issues at stake in the next phase in the negotiations will include the following:

Overall size and financing for EU common goods. The overall size of the core MFF has been reduced by 3 % in comparison with the proposal of May 2018. It is also 16.9 % lower than the amount advocated by the European Parliament in November 2018. The Commission decided to decrease the allocations for a number of programmes that it had reinforced in its original proposal as compared to the current MFF and that are considered to be investments in EU common goods. The cuts, as compared with the 2018 proposal, affect programmes including: Erasmus+ (-6.7 %); the Connecting Europe Facility (-8.4 %), including its strand investing in digital Europe (-31.2 %); the European Solidarity Corps (-19.6 %); Justice Rights and Values (-19.6 %); the European Defence Fund (-30.2 %); and military mobility (-74 %). Among the few funds for which the Commission increased the allocations made in the initial proposal are the Asylum and Migration Fund (+19.5 %) and the Integrated Border Management Fund (+33.5 %).

Climate mainstreaming. The Commission has proposed to step up the inclusion of climate considerations across the EU budget, by raising the share of the MFF devoted to climate-relevant expenditure from the current 20 % to 25 %. Parliament supports more ambitious goals and is demanding that the EU budget's contribution to the fight against climate change be no lower than 25 % of total expenditure over the 2021-2027 period, and the annual share reach 30 % as soon as possible, and at the latest by the final year of the framework. The decision on this objective will determine the expected contribution of the EU budget to the European Green Deal Investment Plan.

Financing of traditional policies. In its original MFF proposal the Commission reduced spending on the two traditional EU policies. Compared with the 2014-2020 MFF, the cohesion budget was cut by 10 % and allocations on the two pillars of agricultural policy by 15 %. On the latter, the reductions have been mitigated in the new proposal. Although still below the levels of the current MFF, the planned spending has been lifted by €4 billion (+1.6 %) under the European Agricultural Guarantee Fund and by almost €5 billion (+7.1 %) under the European Agricultural Fund for Rural Development. Contrary to this, the allocation for subheading 'Economic, social and territorial cohesion' has been further reduced (-2.3 %). However, both policy areas would receive additional funding under NGEU.

New programmes and funds. The amended MFF proposal includes some new elements. As part of efforts to improve the EU's capacity to react to future health crises and based on a previously very small part of the proposed European Social Fund Plus, the Commission set up a stand-alone Health4EU programme with the allocation of €1.7 billion under the MFF and an additional €7.7 billion from Next Generation EU. Another example is the Just Transition Fund, which was introduced to the MFF debate by the European Parliament. The Commission decided to include it in the MFF proposal (heading 3) and endow it with €10 billion. An additional €30 billion would be allocated to the fund from Next Generation EU. Finally, the Commission introduced a specific €17.4 billion allocation to the MFF to cover the interest payments for the resources borrowed under Next Generation EU.

Flexibility. Based on experience with the limited but very useful flexibility instruments during the current MFF, the Commission proposed to reinforce and extend the scope of this kind of emergency tool, which can be used to deal with unforeseen challenges. On top of the amounts proposed back in May 2018 (€16.8 billion), the instruments would provide up to €21 billion of additional emergency financing over the 2021-2027 period. However, the Commission significantly reduced the margins left under all headings except for heading 3, thus limiting the flexibility provided by the possibility to resort to these reserves in the event of unforeseen circumstances.

Long-term function of the MFF. There is a risk that for the sake of urgently needed, but temporary financial reinforcement under the NGEU, the standard MFF and its strategic goals could be neglected. While the substantial, additional funds under NGEU are designed to be committed over a period of four years (2021 to 2024), the MFF covers seven years (2021 to 2027). It will be important to see how the two sources of resources for EU budgetary instruments interact.

Rule of law conditionality. The Commission has emphasised that a new mechanism to protect EU spending from financial risks linked to generalised deficiencies regarding the rule of law remains a key feature of the proposal. While most of the Member States support this conditionality in the EU budget, some countries see it as interference in national affairs.

Recovery instrument (NGEU)

The socio-economic consequences of the coronavirus pandemic across the EU have led to a growing consensus on the need for a common EU recovery plan to complement national stimulus packages and the monetary policy of the European Central Bank (ECB). The crisis is hitting all Member States but with varying intensity, creating risks of divergence in the single market and the euro area. The uneven recovery estimated by current forecasts would be detrimental for all Member States, given the strong interdependences of national economies within the EU.

On 23 April 2020, the European Council tasked the Commission with preparing a proposal for an EU recovery plan and clarifying its links to the MFF. On 15 May 2020, the European Parliament demanded an ambitious recovery package worth €2 trillion, including the new MFF, and built on the EU budget. Three days later a Franco-German initiative proposed a €500 billion recovery fund in the context of the next MFF.

Together with the revised proposal for the 2021-2027 MFF, the European Commission has proposed the creation of a European Union recovery instrument, Next Generation EU (NGEU). Designed to contribute to macroeconomic stabilisation, NGEU would reinforce expenditure channelled through new and already planned EU budgetary instruments (see Annex 4) during the first half of the programming period (2021 to 2024) with an additional €750 billion. Unlike the standard MFF, its financing would be secured not by EU own resources but by funds borrowed on the capital markets by the Commission on behalf of the Union. To enable borrowing on such a large scale, modifications would be made to the Own Resources Decision (see above), while a Council Regulation based on Article 122 of the Treaty on the Functioning of the European Union (TFEU) would activate this empowerment and allocate the borrowed resources to a number of programmes under the EU budget as external assigned revenue. These temporary and extraordinary resources would be devoted to addressing the coronavirus crisis, promoting fair socio-economic recovery and supporting the urgent investments necessary to build more resilient economies across the EU. Investment is to be in line with jointly agreed EU objectives such as the green and digital transitions.

NGEU would be implemented by a dozen new and already planned EU budgetary instruments that would contribute to the achievement of its objectives through a mix of grants (€500 billion) and loans (€250 billion). Parliament and Council would co-decide all relevant spending instruments under the ordinary legislative procedure. However, the budgetary authority (Parliament and Council) would not determine the annual level of NGEU expenditure in the budgetary procedure, since its financing would be based on external assigned revenue. NGEU expenditure would be based on three pillars, focusing respectively on investment and reforms in Member States, private investment, and lessons learnt from the crisis. The bulk of resources would go to the first pillar, supporting recovery in Member States, in particular through a new Recovery and Resilience Facility (€560 billion) aimed at addressing challenges identified in the European Semester, and a REACT-EU initiative (€50 billion), which would provide for top-up to cohesion spending in 2021 and 2022. Under this and the other two pillars, spending instruments already planned for the MFF that would receive additional resources from NGEU include: the European Agricultural Fund for Rural Development (EAFRD), the Just Transition Fund, InvestEU, Horizon Europe for research and innovation, the Union civil protection mechanism (rescEU), the Neighbourhood, Development and International Cooperation Instrument (NDICI), and humanitarian aid.

Elements of the NGEU proposal that have attracted immediate attention and are likely to be under the spotlight in the negotiations include:

Size of the instrument. Given the severe and asymmetric socio-economic consequences of the crisis, the total volume of resources available under NGEU will be key to determining its capacity to contribute to macro-economic stabilisation across the EU.

Mix of grants and loans. A number of Member States deem the grant component to be the most valuable element of the instrument. Others such as Austria, Denmark, the Netherlands and Sweden in their counter-proposal to the Franco-German initiative have argued that support should be delivered in the form of loans only.

Timing. The depth of the recession calls for the resources necessary for the recovery to be made rapidly available. The Commission expects the instrument to be operational as of 2021, which implies considerable efforts for the adoption of all relevant pieces of legislation in good time, not least the Own Resources Decision (see above and box on procedures in Annex 2). Once legislation is in place, the implementation challenges will be equally significant. Based on current Commission estimates, some 30 % of total NGEU resources would be disbursed in 2021 and 2022, while the remaining 70 % of payments would be made in subsequent years.[2] For the last few months of 2020, the Commission has proposed a bridging solution for urgent needs such as solvency support for viable businesses to be financed through an amendment to the current MFF (see below).

Link to the European Semester and EU policy objectives. Member States wishing to receive support under the Recovery and Resilience Facility would submit recovery and resilience plans to be approved by the Commission. Plans must address challenges identified in the European Semester and disbursements would be linked to the achievement of targets and milestones. There have been suggestions that national parliaments should be more closely involved in the preparation of the plans and that the European Parliament should play a role in their approval, with a view to strengthening the democratic oversight of the facility. In addition, questions have been raised regarding how deeply some NGEU spending instruments will be able to incorporate EU policy objectives such as the green and digital transitions.

Allocation of resources between Member States. NGEU aims to focus on the geographical areas and sectors of the EU hardest hit by the crisis. The Commission has proposed two different distribution keys for the two largest instruments, the Recovery and Resilience Facility and REACT-EU. Some variables selected for the former, such as average unemployment rate from 2015 to 2019, have drawn criticism as they appear to be focused on the pre-crisis situation rather than on the impact of the pandemic.

Repayment plan. The EU budget would repay the funds borrowed to finance grants over a 30-year period as of 2028. In addition, it would pay the relevant borrowing costs that the Commission estimates at €17.4 billion for the 2021-2027 period. These aspects are closely linked to the possible introduction of new own resources and their envisaged contribution to the repayment plan (see above). Conversely, Member States requesting support in the form of loans would directly repay relevant funds and pay related borrowing costs.

'Bridging' finance: Revision of the 2014-2020 MFF

The recovery plan should be operational as of 2021, but the pandemic is already affecting Member States and the Commission estimates that the EU's economy will shrink, with gross domestic product (GDP) dropping by 8.3 % in 2020. EU action for a recovery strategy, beyond the initial Coronavirus Response Investment Initiative is needed promptly. The coronavirus crisis has already modified the 2020 budget considerably, this being the last one in the current MFF. Unprecedented re-orientation and reinforcements of 2020 resources have already been made to provide a budgetary response to the impact of the pandemic. Beyond the redeployment of funds, amendments to this year's budget have provided an additional €4.4 billion[3] mainly to cope with the consequences of the coronavirus pandemic, exhausting practically all margins under the current ceilings of expenditure and availabilities under the special instruments. In order to be able already to start financing some recovery plan objectives in 2020 and avoid disrupting urgent support, the only way to secure additional funding is to revise the current MFF expenditure ceilings. Therefore, together with the proposals on the recovery instrument, the Commission proposed to amend the current MFF, to allow an increase in the expenditure ceilings for 'Competitiveness for growth and jobs', 'Economic, social and territorial cohesion' and 'Global Europe', and the 2020 budget (Draft Amending Budget 6/2020).

The proposed solution to make a bridge between the 2020 budget and the 2021-2027 MFF amounts to €11.5 billion (current prices, see Table 1). It would allow the EU to already launch some of the measures proposed by the Commission under Next Generation EU for the post-2020 period this year, in particular:

- the REACT-EU initiative would receive €5 billion in 2020 before NGEU funding becomes available in 2021. These resources would finance measures under the current European Social Fund, the European Regional Development Fund and the Fund for the European Aid to the Most Deprived. The funding would be provided on the basis of the cohesion rules as adjusted by the Coronavirus Response Investment Initiative to grant greater flexibility. The allocation of the funds should take into account the economic and social impact of the pandemic;

- €5 billion (current prices) would go to the new Solvency Support Instrument created under the European Fund for Strategic Investments (EFSI) and aimed at providing urgent support for sound European companies facing solvency problems as a result of the crisis. The instrument would receive a further €26 billion under NGEU up to 2024;
- the capital of the European Investment Fund (EIF), responsible for implementing additional guarantee amounts covered by the EU Budget, would be bolstered by €500 million (current prices);
- the guarantee under the European Fund for Sustainable Development (EFSD), amended to extend its geographic scope to beneficiaries in the western Balkans, would be provisioned with a further amount of €1.04 billion (current prices).

Only once the revision of the MFF is agreed, can Draft Amending Budget 6/2020, providing the additional financing, be approved (see box on procedures in Annex 2). However, the Council's position is still not clear. Furthermore, agreement is also needed on the legislative proposals for the Solvency Support Instrument and the REACT-EU initiative (Annex 4). Delays in decision-making, at both budgetary and legislative levels, put off delivery of the financing support necessary to tackle the impact of the pandemic. With only five months remaining in 2020 to begin implementing these measures, time is of the essence.

Table 1 – Recovery plan: Bridging solution for the final months of 2020 (€ billion, current prices)

	RESOURCES FROM THE 2014-2020 MFF
REACT-EU (top-up to cohesion spending)	5
Solvency Support Instrument (under EFSI)	5
Capital increase of the European Investment Fund (EIF)	0.5
European Fund for Sustainable Development (EFSD)	1
TOTAL	**11.5**

Source: EPRS, based on COM(2020) 423.

European Parliament

In November 2018, the European Parliament expressed concerns that the MFF resources initially proposed by the Commission would not be sufficient to permit the EU to meet its commitments, and it advocated reinforcing new and traditional EU priorities. Members welcomed the proposals on EU revenue as an important step, supporting even more ambitious reform. In 2019, the newly elected Parliament confirmed and updated its negotiating mandate on the MFF and own resources, reiterating its view that expenditure and revenue should be treated as a single package in the negotiations. Parliament has repeatedly stressed that it will not give its consent to the MFF without a reform of the financing system and the introduction of new genuine own resources.

In June 2020, commenting on the amended MFF and the recovery instrument, European Parliament President David Sassoli welcomed the Commission proposals and noted that they should be the minimum baseline for the negotiations. He recalled Parliament's demand for new own resources and its full involvement in the recovery plan, calling for a 'common approach, with the broadest possible consensus, that combines urgent action with a forward-looking vision to build a stronger and more resilient Europe that serves everyone's interests'. Parliament's negotiators for the MFF and own resources underlined that the recovery plan is crucial, but warned that it cannot come at the expense of the standard MFF and its wider objectives. Members expressed their support for a strong MFF and objected to the cuts to investment in EU common goals. They once again urged the Council to start negotiations immediately and referred to Parliament's request for an MFF contingency plan so as to eliminate any risk of discontinuity. In a joint letter, the leaders of five political groups (EPP, S&D, Renew Europe, Greens/EFA and GUE/NGL) called on the European Council to match political statements with sufficient budgetary means. Considering the overall figure put forward for the recovery instrument as a good starting point, they opposed any reduction and underlined that Parliament must be fully involved in its creation and delivery. New own resources and a robust MFF are seen as essential. Following the presentation of draft European Council conclusions ahead of the July meeting (see below), Parliament's negotiators disagreed with the proposed cuts to the long-term EU budget, urging the European Council to improve the text.

As far as the 'transitional' financing in 2020 is concerned, at the recent debate in its Committee on Budgets, Parliament's rapporteurs proposed that the committee give a positive recommendation to the revision of the 2014-2020 MFF. Given the urgency of the matter, the committee is considering the proposal as presented by the Commission, ahead of Council's referral.

Negotiations in the European Council and Council

The pressure to reach a political agreement on the next MFF and recovery package is greater than ever. Many leaders have expressed the will to conclude the discussion before the summer break. The agreement is one of the priorities of the German Presidency, which started on 1 July 2020. With gloomy forecasts on the economic outlook, EU leaders agree that an exceptional response to this unprecedented crisis is required, however they have not yet reached agreement on the scale and the form of the response.

Linking the negotiations on the next MFF with the recovery instrument extends the already long list of traditionally divisive issues with the new elements linked to the design of NGEU (see above). Furthermore, during the negotiations, the Member States are expected to deal with the Commission's proposal to introduce the rule of law conditionality. Also on this matter the views of some countries diverge.

European Council President's proposal

On 10 July, one week ahead of the European Council budget meeting, European Council President Charles Michel presented a set of solutions as the basis for a possible compromise. His proposal includes the following elements (for more details see Annex 5):

- The 2021-2027 MFF would total €1.074 billion.
- The correction mechanisms would be maintained in real terms and on the basis of 2020 as lump sum reductions for Denmark, Germany, the Netherlands, Austria and Sweden.
- The recovery instrument would amount to €750 billion and be financed from the resources borrowed by the European Commission. It would be used for grants channelled through MFF programmes and back-to-back loans to Member States.
- The balance between loans and grants proposed by the Commission would be confirmed.
- 70 % of the Recovery and Resilience Facility would be committed in 2021 and 2022, and according to the allocation criteria proposed by the Commission; 30 % of the facility would be committed in 2023, taking into account the drop in GDP in 2020-2021 for the breakdown of resources between Member States. The total envelope would be disbursed by 2026.
- Governance and conditionality of the spending:
  - Member States would prepare national recovery and resilience plans for 2021 to 2023, in line with the European Semester and its country-specific recommendations. The plans would be reviewed in 2022 on the basis of the final allocation key. The plans would be approved by Council (by qualified majority), on the basis of a Commission proposal.
  - The objective for climate-related expenditure would be set at 30 % of total resources; MFF and NGEU expenditure would have to comply with the objectives of climate neutrality by 2050, the EU's 2030 climate targets and the Paris Agreement.

  - A strong link would be established between EU funding and respect for the rule of law and European values, by means of: a new budget conditionality (the Commission would propose corrective measures, to be approved by Council by a qualified majority vote), rule of law monitoring (under preparation, the Commission and the Court of Auditors would report on deficiencies affecting the implementation of the budget), increased funding for the European Public Prosecutor's Office and the Justice, Rights and Values programme, with a focus on promotion of media plurality and the fight against disinformation.
- Repayment of the resources borrowed for the recovery instrument would begin in 2026 instead of 2028.
- A new own resource related to the use of plastic waste would be introduced in 2021. The Commission is invited to table proposals for a carbon adjustment measure and a digital levy next year. Work should also continue on resources based on the emissions trading system and the financial transaction mechanism.
- A €5 billion reserve (the Brexit reserve) would be created to counter unforeseen consequences of Brexit in the Member States and sectors worst affected.
- The RescEU and Health programmes would be reinforced as proposed by the Commission.

What next?

The current negotiations are already about half a year behind the timeline of the negotiations on the 2014-2020 MFF. That time, the political decision at European Council level was reached in February 2013 and the final adoption, following negotiations with Parliament, took place in December 2013, i.e. less than one month before the start of the new financial period. The negative effects of this delay on the implementation process for EU programmes and knock-on effects for their beneficiaries have often been highlighted. This time, however, the need for a swift agreement is compounded by the urgent nature of the recovery instrument, Next Generation EU, whereas the high legal and procedural complexity of the package (see information on procedures in Annex 2) is not conducive to quick decisions. Agreement between EU leaders would open the way to formal negotiations between the European Parliament and the Council. In these discussions, Parliament will be represented by its negotiating team[4] and its President David Sassoli. In accordance with Article 324 TFEU, meetings should take place at the highest political level, between the Presidents of the European Parliament, the Council and the Commission, to promote consultation and reconciliation of positions on budgetary matters. One such meeting took stock of progress in the discussions on 8 July 2020.

An absolute majority of Members is required to secure Parliament's consent, and internal political negotiations will have to take place. Johan Van Overtveldt, the chair of the Committee on Budgets, has said that Parliament is ready to act swiftly, but pointed out that Parliament has been waiting for Council to find an agreement among Member States for almost two years. He stressed that Parliament has already outlined its demands and conditions for an agreement, that it will use its rights and powers, and that its consent on the MFF should not be taken for granted.

If the Council fails to adopt a new MFF regulation by December 2020, Article 312(4) TFEU extends the annual level of resources available in the final year of the current MFF in each major spending area, as well as other provisions applicable, until an agreement is reached. However, this provision alone cannot prevent disruption to the smooth functioning of the EU budget, since most spending instruments that implement the 2014-2020 MFF expire at the end of 2020 and would require an extension to operate in 2021. The European Parliament has repeatedly drawn attention to this problem and in its resolution of 13 May 2020 called on the Commission to submit a proposal for an MFF contingency plan to protect the beneficiaries of Union programmes by ensuring continuity of funding and implementation.

Once the MFF regulation has been adopted, preparation of the legislative acts for spending programmes and funds under the MFF and Next Generation EU can continue and be completed.

MAIN REFERENCES

European Commission, The EU budget powering the recovery plan for Europe, COM(2020) 442 final, 27 May 2020.

ENDNOTES

[1] For more detail, see: M. Sapala, N. Kresnichka-Nikolchova, Amended proposal for the 2021-2027 MFF and 2021-2024 Recovery Instrument in figures, EPRS, European Parliament, July 2020.

[2] For more detail, see: A. D'Alfonso, Next Generation EU: A European instrument to counter the impact of the coronavirus pandemic, EPRS, European Parliament, July 2020.

[3] Amending budgets 1 to 5 to the 2020 budget, including amending budget 4 on the mobilisation of the EU solidarity fund.

[4] Parliament's negotiating team is composed of the chair of the Committee on Budgets (Johan Van Overtveldt, ECR, Belgium), the co-rapporteurs for the MFF proposal (Margarida Marques, S&D, Portugal and Jan Olbrycht, EPP, Poland), the co-rapporteurs for the proposal on the own resources (José Manuel Fernandes, EPP, Portugal and Valérie Hayer, Renew, France), and Rasmus Andersen (Greens/EFA, Germany).

DISCLAIMER AND COPYRIGHT

eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

http://epthinktank.eu (blog)

Annexes

Annex 1 – Timeline of the 2021-2027 MFF and NGEU negotiations

2018

2 May	**European Commission**: proposals for post-2020 MFF and own resources
14 November	**European Parliament** adopts its detailed negotiating position
30 November	**Council**: Presidency produces progress report and draft negotiating box
13 December	**European Council**: first discussion on the content of the proposals

2019

9 May	Informal **European Council** on the future of the EU in Sibiu
23-26 May	**European Parliament** elections
14 June	**Council**: Presidency publishes revised draft Negotiating Box
20 June	**European Council** takes note of various elements of the package, aiming for an agreement before the end of the year
10 October	Newly elected **European Parliament** confirms and updates its negotiating position
17-18 October	**European Council**: exchange of views on the new MFF
1 December	New **European Council** and **European Commission** Presidents take office
5 December	**Council**: Finnish Presidency publishes first negotiating box with figures
12 December	**European Council** calls on its President to take the negotiations forward to reach a final agreement
19 December	**European Parliament** Conference of Presidents decides to suspend most MFF negotiations with Council

2020

20 February	Special **European Council** on the next MFF fails to reach an agreement
23 April	**European Council** asks the Commission to prepare a proposal for a recovery fund and clarify its link to the MFF
15 May	**European Parliament** demands a recovery package worth €2 trillion, including the next MFF, and built on the EU budget
18 May	Franco-German initiative for a Recovery Fund in the context of the new MFF
27 May	**European Commission** presents amended proposal for the new MFF and recovery instrument
19 June	**European Council** video conference including discussion on the MFF and recovery instrument
17-18 July	Special **European Council** meeting to discuss the MFF and recovery instrument
	European Parliament: consent vote on the MFF agreement reached in Council and European Council

2021

	Scheduled start of the new MFF

Annex 2 – Main legislative procedures involved

Own resources system. Different procedures apply: Parliament is consulted on the decision, which must then be adopted unanimously by the Council and ratified by all Member States, while the regulation on implementing measures requires Parliament's consent before Council can adopt it by a qualified majority (Article 311 TFEU). Council adopts the regulations on operational provisions by qualified majority after consulting Parliament and the Court of Auditors (Article 322(2) TFEU). Parliament has repeatedly stressed that the MFF and own resources proposals should be negotiated as a single package.

Multiannual financial framework and its amendments. The MFF is adopted in the form of a regulation via a special legislative procedure, with Council acting unanimously after receiving Parliament's consent as expressed by absolute majority. The same procedure applies to amendments to an MFF regulation in force. Parliament, Council and the Commission are required to take any measure necessary to facilitate the adoption of the MFF. The European Council may unanimously authorise the Council to act by a qualified majority when adopting the MFF regulation, but this *passerelle* clause has not been activated so far (Article 312 TFEU). Parliament and Council co-decide most spending instruments, with different legal bases depending on the policy areas concerned.

European Union recovery instrument. The set of proposals implies various legislative procedures. While the own resources decision would provide the empowerment to borrow (see above Article 311 TFEU), the proposed regulation to activate this empowerment requires qualified majority in Council but does not involve Parliament (Article 122 TFEU). Parliament and Council would co-decide all proposed spending instruments, with different legal bases depending on the policy areas concerned.

Adoption of the 'bridging' solution. The agreement requires an amendment to the 2014-2020 MFF (see above), the adoption of the Draft Amending Budget 6/2020 (with a qualified majority in Council and a majority of Members of the European Parliament as specified in Article 314 TFEU), as well as the adoption of regulations specifying the rules for the implementation of REACT-EU and the Solvency Support Instrument. These regulations are subject to the ordinary legislative procedure, in which Parliament and Council act on an equal footing.

Annex 3 – European Commission 2021-2027 MFF proposals, European Parliament position, and proposed allocations under Next Generation EU (commitments, 2018 prices, € million)

Headings Policy clusters	May 2018 2021-2027 MFF proposal (EU-27+EDF)	Parliament position on proposal of May 2018	May 2020 2021-2027 MFF proposal (EU-27+EDF)	% change vs May 2018	Next Generation EU (NGEU)	TOTAL 2021-2027 MFF and NGEU
1. Single market, innovation and digital	**166 303**	**216 010**	**140 656**	**-15 %**	**69 800**	**210 456**
1. Research and innovation	91 028	127 537	87 659	-4 %	13 500	101 159
2. European strategic investments	44 375	51 798	30 800	-31 %	56 300	87 100
3. Single market	5 672	8 423	5 832	+3 %	-	5 832
4. Space	14 404	15 225	13 437	-7 %	-	13 437
Margin	*10 824*	*13 026*	*2 928*	*-73%*	-	*2 928*
2. Cohesion and values	**391 974**	**457 540**	**374 460**	**-4 %**	**610 000**	**984 460**
5. Regional development and cohesion	242 209	272 647	237 745	-2 %	50 000	287 745
6. Economic and monetary union (initial proposal)	22 281	22 281	-	-	-	-
6. Recovery and resilience (revised proposal)*			18 247	new	560 000	578 247
7. Investing in people, social cohesion and values	123 466	157 612	116 367	-6 %	-	116 367
Margin	*4 018*	*4 999*	*2 101*	*-48 %*	-	*2 101*
3. Natural resources and environment	**336 623**	**404 718**	**357 032**	**+6 %**	**45 000**	**402 032**
8. Agriculture and maritime policy	330 724	391 198	340 182	+3 %	15 000	355 182
9. Environment and climate action	5 085	11 520	15 338	+202 %	30 000	45 338
Margin	*814*	*1 999*	*1 512*	*+86 %*	-	*1 512*
4. Migration and border management	**30 829**	**32 194**	**31 122**	**+1 %**	**-**	**31 122**
10. Migration	9 972	10 314	12 084	+21 %	-	12 084
11. Border management	18 824	19 848	17 675	-6 %	-	17 675
Margin	*2 033*	*2 033*	*1 363*	*-33 %*	-	*1 363*
5. Resilience, security and defence *	**24 323**	**24 639**	**19 423**	**-20 %**	**9 700**	**29 123**
12. Security	4 255	4 571	4 580	+8 %	-	4 580
13. Defence	17 220	17 220	9 500	-45 %	-	9 500
14. Resilience* and crisis response	1 242	1 242	4 334	+249 %	9 700	14 034
Margin	*1 606*	*1 606*	*1 010*	*-37 %*	-	*1 010*
6. Neighbourhood and the world	**108 929**	**113 386**	**102 705**	**-6 %**	**15 500**	**118 205**
15. External action	93 150	96 809	89 172	-4 %	15 500	104 672
16. Pre-accession assistance	12 865	13 010	12 865	0%	-	12 865
Margin	*2 913*	3 567	668	-77 %	-	668
7. European public administration	**75 602**	**75 602**	**74 602**	**-1 %**	**-**	**74 602**
TOTAL commitments	**1 134 583**	**1 324 089**	**1 100 000**	**-3 %**	**750 000**	**1 850 000**
TOTAL payments	**1 104 805**	**1 294 311**	**1 103 529**	**+18 %**	**N/A**	**N/A**

* The items indicated in green reflect changes introduced by the latest Commission proposals presented on 27 May 2020.

Source: EPRS, based on the annex to the European Parliament resolution on the MFF of 14 November 2018 and the Commission's proposals COM(2020) 442 final and COM(2020) 443 final, Annex.

Annex 4 – Overview of proposed expenditure: 2021-2027 MFF, Next Generation EU and bridging finance

Commitments
2018 prices
€ billion

PILLARS OF NEXT GENERATION EU

- Pillar 1: Investment & Reforms
- Pillar 2: Private Investment
- Pillar 3: Lessons from the crisis

MFF 2021 - 2027 — € 1 100

SINGLE MARKET, INNOVATION AND DIGITAL	€ 141
COHESION AND VALUES	€ 374
NATURAL RESOURCES AND ENVIRONMENT	€ 357
MIGRATION AND BORDER MANAGEMENT	€ 31
RESILIENCE, SECURITY AND DEFENCE	€ 19
NEIGHBOURHOOD AND THE WORLD	€ 103
EUROPEAN PUBLIC ADMINISTRATION	€ 75

The European recovery instrument 'Next Generation EU' 2021-2024 — € 750

EU BUDGET GRANTS € 433.2

Investment & Reforms	Recovery and Resilience Facility	€ 310
Investment & Reforms	ReactEU 2020 - 2022	€ 50
Investment & Reforms	Just Transition Fund	€ 30
Investment & Reforms	Rural Development	€ 15
Lessons from the crisis	Horizon Europe	€ 13.5
Lessons from the crisis	EU4Health	€ 7.7
Lessons from the crisis	Humanitarian Aid	€ 5
Lessons from the crisis	Civil protection	€ 2

GUARANTEES € 66.8

Private Investment	Solvency Support Instrument	€ 26
Private Investment	InvestEU	€ 15.3
Private Investment	Strategic Investment Facility	€ 15
Lessons from the crisis	Neighbourhood, Development and International Cooperation	€ 10.5

LOANS € 250

Investment & Reforms	Recovery and Resilience Facility	€ 250

2020 BRIDGING AMOUNT € 11.04

Investment & Reforms	ReactEU	€ 4.8
Private Investment	Solvency Support Instrument	€ 4.8
Private Investment	Capital increase EIF	€ 0.48
Lessons from the crisis	European Fund for Sustainable Development	€ 0.96

Source: EPRS.

Annex 5 – European Commission and European Council President proposals for the 2021-2027 MFF and NGEU: by heading and selected programmes (commitments, 2018 prices, € billion, rounded)

			Commission proposal May 2020	European Council President's proposal July 2020		
Headings Programmes	2014-2020 MFF (EU-27+EDF) 5	European Council President's proposal February 2020	2021-2027 MFF (EU-27+EDF)	2021-2027 MFF (EU-27+EDF)	Next Generation EU (NGEU)	TOTAL 2021-2027 MFF and NGEU
1. Single market, innovation and digital Of which:	**121.6**	**149.5**	**140.7**	**131.3**	**69.8**	**201.1**
Horizon Europe	65.5	80.9	80.9	75.9	13.5	89.4
ITER	3.0	5.0	5.0	5.0	-	5.0
Invest EU	4.3	11.3	1.3	1.3	30.3	31.6
Solvency Support Instrument	-	-	-	0.0	26.0	26.0
CEF-Transport	12.1	11.4	12.9	11.4	-	11.4
CEF-Energy	4.4	5.2	5.2	5.2	-	5.2
CEF-Digital	1.0	1.8	1.8	1.8	-	1.8
Digital Europe	0.2	6.8	8.2	6.8	-	6.8
European Space Programme	11.3	13.2	13.2	13.2	-	13.2
2. Cohesion and values Of which:	**391.7**	**380.1**	**374.5**	**380.5**	**619.7**[2]	**1 000.2**[2]
Sub-ceiling Cohesion policy + ReactEU	373.2	323.2	323.2	323.6	50.0	373.6
Recovery and Resilience Facility + Technical Support (ex BICC+CRI) [6]	0.1	19.2	0.8	0.8	560.0	560.8
Financing costs NGEU	-	-	-	17.4	-	17.4
Erasmus	13.9	21.2	24.6	21.2	-	21.2
RescEU [7]	0.9	-	1.1	1.1	2.0	3.1
Health programme [8]	0.4	-	-	1.7	7.7	9.4
3. Natural resources and environment Of which:	**399.6**	**354.1**	**357.0**	**355.6**	**45.0**	**400.6**
Common Agricultural Policy of which:	388.2	329.3	333.3	333.2	15.0	348.2
European Agricultural Guarantee Fund	291.5	256.7	258.3	258.2	-	258.2
European Agricultural Fund for Rural Development [9]	96.8	72.5	75.0	75.0	15.0	90.0
LIFE	3.2	4.8	4.8	4.8	-	4.8
Just Transition Fund	0.0	7.5	10.0	7.5	30.0	37.5
4. Migration and border management Of which:	**8.9**	**21.9**	**31.1**	**21.9**	**-**	**21.9**
Asylum and Migration Fund	7.1	8.7	11.0	8.7	-	8.7
Integrated Border Management Fund	2.8	5.5	11.0	5.5	-	5.5
European Border and Coast Guard	-	5.1	-	5.1	-	5.1
5. [Resilience] Security and defence Of which:	**4.6**	**14.3**	**19.4**	**13.6**	**-**	**13.6**
Internal Security Fund	1.3	1.7	2.2	1.7	-	1.7
Nuclear Decommissioning	1.3	1.0	1.0	1.0	-	1.0
European Defence Fund	0.6	7.0	8.0	7.0	-	7.0
Military Mobility	0.0	1.5	1.5	1.5	-	1.5

			Commission proposal May 2020	European Council President's proposal July 2020		
Headings Programmes	2014-2020 MFF (EU-27+EDF) 5	European Council President's proposal February 2020	2021-2027 MFF (EU-27+EDF)	2021-2027 MFF (EU-27+EDF)	Next Generation EU (NGEU)	TOTAL 2021-2027 MFF and NGEU
6. Neighbourhood and the world **Of which:**	**97.1**	**101.9**	**102.7**	**98.4**	**15.5**	**113.9**
Neighbourhood, Development and International Cooperation Instrument	73.1	75.5	75.5	70.8	15.5	86.3
Common Foreign and Security Policy	2.1	2.4	2.4	2.4	-	2.4
Overseas countries and territories, incl. Greenland	06	0.4	0.4	0.4	-	0.4
Pre-Accession Assistance	13.2	11.4	12.9	12.6	-	12.6
Humanitarian Aid	11.1	9.8	9.8	9.8	-	9.8
7. European public administration	**70.8**	**73.1**	**74.6**	**73. 1**	**-**	**73.1**
European Schools and Pensions	14.0	15.6	17.1	17.1	-	17.1
Administrative expenditure of the institutions	56.8	56.0	57.5	56.0	-	56.0
TOTAL commitments	**1 094.4**	**1 094.8**	**1 100.0**	**1 074.3**	**750.0**	**1 824.3**

Notes:

Blank cells, except in the column for NGEU, mean that the institution has not indicated a position on the given programme/line.

5 Amounts under 2014-2020 MFF are estimations excluding the UK and including the European Development Fund. It takes into account adopted and pending amending budgets and the pending 'bridge solution'.

6 Including €250 billion of loans.

7 RescEU is moved from heading 5 in the Commission proposal to heading 2 in the European Council President's proposal.

8 In the Commission's proposal, the Health Programme is under heading 5, with €1.7 billion.

9 In the European Council President's proposal, €2.5 billion is unallocated at this stage.

Source: Data extracted from a preliminary analysis of figures by the Secretariat of the European Parliament's Committee on Budgets, 14 July 2020.