European Commission - Fact Sheet

A modern budget for a Union that protects, empowers and defends: Questions and Answers

Brussels, 2 May 2018

1. General

What is the long-term EU budget?

The long-term EU budget, also referred to as Multiannual Financial Framework (or 'MFF'), provides a stable framework for implementing the EU's annual budget. It translates the Union's **political priorities** into financial terms, for a period of several years and sets annual maximum amounts ('ceilings') for EU expenditure as a whole and for the main categories/priorities of expenditure ('headings').

Why do we need a long-term EU budget?

By specifying the spending limits for each category of expenditure, the long-term budget ensures that the Union's priorities are **adequately funded** in the medium term.

At the same time, it ensures budgetary **discipline** and ensures that the Union's expenditure develops in an orderly manner in line with the Union's policy objectives and within the limits of its Own Resources. It also gives **certainty** to beneficiaries of EU funds, such as small and medium-sized enterprises, regions catching up, students, researchers, farmers or civil society organisations, as well as to national, regional, and local authorities.

Has the EU always operated with long-term budgets?

Long-term budgets have been part of the European Union's functioning **since 1988** and have covered periods varying from 5 to 7 years:

-The first long-term budget, the so called Delors Package I, covered the years 1988-1992 and focused on establishing the Single Market and consolidating the multiannual framework programme for research and development;

-The second long-term budget 1993-1999, the Delors Package II, gave priority to social and cohesion policy and the introduction of the euro;

-The "Agenda 2000" long-term budget covered the period 2000-2006 and focused on the enlargement of the Union;

-The 2007-2013 long-term budget gave priority to sustainable growth and competitiveness, in order to create more jobs;

-The 2014-2020 long-term budget aimed at getting people into work and the economy growing, tied in with the Europe 2020 strategy for smart, sustainable and inclusive growth.

-The long-term budget proposed today for the period 2021-2027 is a new, modern and pragmatic budget for the Union of 27. It is a clear, simple and flexible budget designed to address the top priorities and policies providing maximum European added value. To put it differently: it is a budget that invests in a Europe that protects, empowers and defends – as called for by President Juncker in his 2016 State of the Union address. By moderately reducing funding in Common Agricultural Policy and Cohesion Policy programmes, the proposal also responds in a fair and balanced way to the budgetary consequences of the withdrawal of the United Kingdom, an important contributor to the EU budget.

Who decides on the long-term budget?

Every long-term budget consists of a comprehensive set of legislation:

-The MFF Regulation sets out the main policy priorities, policy areas and expenditure ceilings;

-More detailed sector-specific legislation sets out the various spending programmes, such as for agriculture, cohesion policy, research, etc. The Commission will present all sector-specific proposals by mid-June.

The MFF Regulation follows a special legislative procedure set out in Article 312 of the Treaty on the Functioning of the European Union. The Council will adopt the MFF Regulation **by unanimity**, after receiving the **consent of the European Parliament**. Under this consent procedure, the Parliament, voting with absolute majority, can approve or reject the Council's position, but cannot amend it. With only a few exceptions, the sector-specific legislation is adopted under the **ordinary legislative procedure** where Council and Parliament decide jointly, on an equal footing.

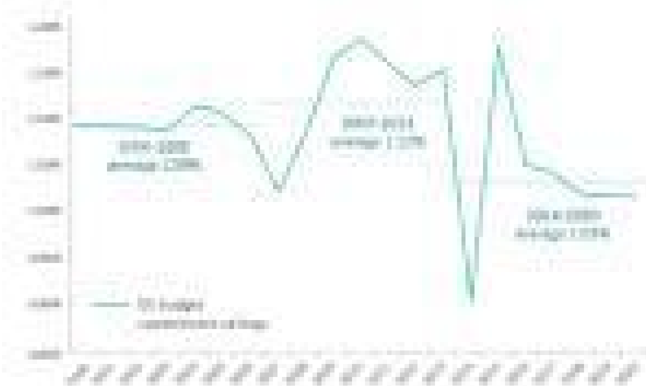
Finally, changing the EU's overall financing system (the Own Resources Decision) requires **unanimity of Member States** and **ratification by national parliaments** (see below).

Why should the long-term budget be agreed by the European Parliament elections in 2019?

An early agreement is of great practical importance because the MFF Regulation must be agreed before the sector-specific legislation. Whilst the negotiations may run in parallel, it takes 12 to 18 months to agree on the sector-specific legislation for all the multi-annual programmes. In order to allow these programmes to **start on time in January 2021**, an agreement on the sector-specific legislation should be reached **no later than one and a half years before it enters into force**.

In order to be able to effectively spend money as of **January 2021,** many concrete **preparatory steps** have to be taken. Detailed annual programming documents need to be prepared and calls to be published. Applicants need to prepare and submit their proposals which then have to be evaluated. For programmes in shared management, managing authorities at national or regional levels need to prepare and submit strategic planning documents to be agreed with the Commission. Agreement on the next long-term budget in 2019 would provide for a **seamless transition** between the current long-term budget (2014-2020) and the new one and would ensure **predictability and continuity** of funding to the benefit of all.

Past experience shows that a delayed adoption will lead to delayed investments with negative consequences for the EU economy, in particular in its most fragile regions (see Evolution of commitment ceilings between 2000 and 2020 in current prices - Annex).



2. Key features of the proposed new long-term budget

How big will the next long-term budget be?

The Commission proposes a long-term budget of €1.135 billion in commitments (expressed in 2018 prices) over the period from 2021 to 2027, equivalent to 1.11% of the EU27's gross national income (GNI). (Expressed in current prices – taking inflation into account – this would amount to €1.279 billion in commitments.)

This level of commitments translates into €1.105 billion (or 1.08% of GNI) in payments (again expressed in 2018 prices). The European Development Fund, which is currently an intergovernmental agreement funding the development policy in countries in Africa, Caribbean and the Pacific amounting to €30 billion in the 2014-2020 period, will be integrated in the EU budget.

In real terms, the future long term budget for 2021-2027 is **broadly similar** to the one for the current period 2014-2020, taking into account the inclusion of the European Development Fund.

The Commission is proposing an increase of expenditure, predominantly through additional resources but also through redeployments (proportionally roughly 80% and 20%, respectively) to fund **new and**

pressing priorities and reinforce existing programmes with clear European added value (see below). At the same time, the Commission's proposal takes fair account of the impact of the withdrawal of the United Kingdom, through a balanced combination of reductions/redeployments and an increase of expenditure (proportionally roughly 50% each). For that purpose, the proposal includes reductions of roughly 5% in both the Common Agricultural Policy and Cohesion Policy programmes, as they have the largest financial envelopes.

The Commission's proposals are based on a **rigorous assessment** of the resources needed to deliver efficiently on the Union's goals, and of the efficiency and "added value" (where the Union budget can have a bigger impact than public spending at national level) of spending in each area.

Are you presenting your proposal in current prices (taking inflation into account) or constant 2018 prices?

The Commission is publishing today **–** infull transparency **–** therelevant tables in both constant 2018 and current prices, so that there is total clarity as to the different envelopes proposed for the policy areas and programmes.

Whereas the tables in constant 2018 prices are the relevant ones from a legal point of view and reflect the real changes throughout the period (not taking inflation **into** account), **the Commission is** also publish**ing** the data in current prices so that governments and citizens have a clear view of the proposed expenditure throughout the whole **7** year period. This being a long-term budget for a period of **7** years, it takes forecast inflation (of around 2% annually or 14% over that period) **into** account**.** Naturally, inflation has an impact on the overall amounts **–** bothin the EU budget and in any national budget.

How did the Commission identify the priority areas in the new long-term budget?

The priorities and principles underpinning the proposal are the result of an open and **inclusive debate** started over a year ago with the White Paper on the Future of Europe of 1 March 2017. They are part of the positive agenda proposed by President Jean-Claude Juncker in his State of the Union address before the European Parliament on 14 September 2016 and agreed by the Leaders of the 27 Member States in Bratislava on 16 September 2016 as well as in the Rome Declaration of 25 March 2017.

Then, in June 2017 the main issues were laid out in the Commission's Reflection Paper on the future of EU Finances, and on 14 February 2018 the Commission set out options for the future EU budget.

The Commission has **listened carefully** to the European Parliament, to Member States, to national Parliaments, to the beneficiaries of EU funding and to other stakeholders. Commissioner Oettinger met with EU leaders when he visited 27 EU Member States. Open public consultations held earlier this year generated more than 11,000 responses.

In addition, the Commission has also conducted a thorough **spending review** of the current EU spending programmes (also published as part of today's set of proposals). This has helped to pinpoint what has worked well and should be preserved or enhanced in the future long-term budget. It also showed where reform is needed to unlock the full potential of the EU budget.

What is "EU added value"? How does the new EU budget deliver it?

The "EU added value" of the budget refers to the areas where the Union budget can have a bigger impact than public spending at national level could. The EU budget is modest in comparison to the size of the European economy and national budgets. In the Rome Declaration, EU leaders agreed that the European Union should be "big on big issues and small on small issues". The same is true of the EU's budget: it must invest in the 'big' areas, where the Union can have a greater impact that public spending at national level. This notably includes support for **shared goals** such as the protection of the EU's external borders.

Pooling resources can achieve results that Member States acting alone cannot. Examples include cutting-edge research projects that bring together the best researchers from across Europe, or empowering young people and small businesses to take full advantage of the opportunities the Single Market and the digital economy offer. Other instances include key strategic investments such as investing in satellites, in expensive supercomputers or in connecting different parts of the EU with each other. These investments hold the key to Europe's future prosperity and its leadership in achieving the global Sustainable Development Goals. The same is true when it comes to equipping the Union to defend and protect its citizens in a fast-changing world where many of the most pressing issues transcend national borders.

At the same time, the Commission has critically examined where **savings can be made** without undermining the core purpose of EU programmes. The result of these changes will be a **rebalancing**

of the budget and an increasing focus on the areas where the European added value is highest.

How do you propose to make the new long-term budget clearer and simpler?

The Commission is proposing a more coherent, focused and transparent framework for the EU's budget. The structure of the new budget will be **clearer and more closely aligned with political priorities**. In this vein, the number of programmes will be reduced by roughly a third (from 58 to 37), including by bringing fragmented funding sources together into new integrated programmes and **radically streamlining** the use of financial instruments.

For example, the new and fully integrated "InvestEU" Fund will bring centrally managed financial instruments supporting strategic investment throughout the EU together under a single programme. In practical terms, this means avoiding overlaps while ensuring additionality of investments from other public and private sources. Moreover, the **administrative burden will be reduced** for beneficiaries and intermediaries.

Another important element is that the rules will be more coherent, on the basis of a **single rule book**. This will further reduce the administrative burden for beneficiaries and managing authorities. It will encourage participation in EU programmes and accelerate implementation. It will make it easier for different programmes and instruments to work together to boost the impact of the EU budget. In particular, the Commission will propose to simplify and **streamline State aid rules** to make it easier to link up instruments from the EU budget with national funding.

What are you proposing to make the new long-term budget more flexible and agile to react more rapidly to unexpected events?

Whilst the EU budget did play a key role in funding a joint response to the various dimensions of the migration crisis, the limits of the current framework became clear. In an unstable geopolitical environment, Europe must be able to **respond quickly and effectively** to unforeseen demands. The Commission is therefore proposing to make the EU budget more agile by increasing flexibility both within and between programmes as well as between headings and years.

The Commission also proposes to **establish a Union Reserve**. This will be financed from any available margins (the difference between the ceiling and the money actually committed or paid in a given year) as well as from committed but unused funds. This Reserve is a powerful new tool to tackle unforeseen events and to respond to emergencies in areas such as security and migration. It will also help address the economic and social consequences of trade disruptions once other available instruments have been exploited.

What is the link in the new long-term budget between sound financial management and respect of the rule of law?

The Commission is introducing a new rule of law mechanism to protect EU taxpayers' money. One of the prerequisites for **sound financial management** and effective EU funding is the successful operation of the **rule of law** in areas such as the proper functioning of the judiciary and the prevention and sanctioning of fraud or corruption. The purpose of the new rules (a Regulation) proposed today is to strengthen the EU budget and to **protect it from financial risks** linked to generalised deficiencies in the rule of law.

Under the current rules, Member States are already required to show that their rules and procedures for financial management of EU money are robust and funding is sufficiently protected from abuse or fraud. The new proposed rules would allow the Union to **suspend, reduce or restrict access to EU funding** in a manner **proportionate** to the nature, gravity and scope of the rule of law deficiencies.

Importantly, the proposed mechanism would not affect the individual beneficiaries of EU funding, since they cannot be held responsible for the overall functioning of the rule of law. Member States would continue to be obliged to implement the affected programmes and make payments to Erasmus students, researchers, civil society or any other end user recipients or beneficiaries.

3. Key novelties of the new long-term budget - expenditure side

Which are the areas where you propose to spend more in the future?

Investing now in areas such as research and innovation, young people and the digital economy will pay rich dividends for future generations. This is why the Commission is proposing to increase funding in a number of key areas including:

- an almost **9 fold increase** of investments in **digital transformation and networks** to reach € 12 billion (complemented by the investment supported by the InvestEU Fund via loans, guarantees and other financial instruments);
- more than **doubling** programmes for **young people** (such as ERASMUS+ with €30 billion and the

European Solidarity Corps with €1.3 billion), including €700 million to support Interrail passes for young people;

- almost **tripling** expenditure for **external border management, migration and asylum**, to reach around €33 billion, up from the current €13 billion, which could fund 10,000 border guards by 2027 for the European Border and Coast Guard Agency;

- increasing investment in **research and innovation** by 50%, with €100 billion set aside for the flagship programmes Horizon Europe and Euratom;

- increasing investment in **security** by 40% to reach €4.8 billion and creating a €13 billion **Defence Fund** of to complement and catalyse national expenditure in research and capability development. Investments needed to facilitate **military mobility** throughout the EU will be funded by €6.5 billion through the Connecting Europe Facility;

- reinforcing funding for **external action** by 26% to reach €120 billion, with a specific emphasis on Europe's neighbourhood and preserving a specific (and not pre-allocated) reserve to deal with emerging challenges, notably in the area of stability and migration. In order to complement programmes funded by the EU budget in the area of defence, the High Representative is proposing to create an off-budget **€10.5 billion European Peace Facility** to reinforce possible joint engagement in non-EU countries.

What is the role of agriculture and cohesion policy in the new long-term budget?

Both policies remain **as important as before** and, consequently, fully retain their predominant position in terms of funding in the overall long-term budget. They will continue to deliver on their core objectives but will be **modernised** to make them more efficient and to target support to where it is needed most.

At the same time, the EU has gained **new responsibilities** since those two policies were introduced several decades ago. It is therefore logical that their relative shares decrease. Moreover, the United Kingdom's withdrawal requires reductions of roughly 5% in both the Common Agricultural Policy and Cohesion Policy programmes, as these have the largest share of the EU budget.

Agriculture

Europe needs a **resilient, sustainable and competitive agricultural sector** in order to ensure production of high-quality, safe and affordable food for Europeans and a strong socio-economic fabric in rural areas. The Commission is therefore proposing a **reformed, modernised Common Agricultural Policy** which will ensure access to high-quality food while maintaining a fully integrated single market for agricultural goods in the EU. The reformed policy will place a greater emphasis on the environment and climate and will support the transition towards a more sustainable agricultural sector and the development of vibrant rural areas. **Direct payment levels** per hectare between Member States will be streamlined and better targeted. They will continue to converge towards the EU average.

A stronger focus will be put on **supporting small and medium-sized farms.**

Under the new rules, Member States will be given more responsibility for making the best use of the agriculture budget. They will have more flexibility than today to shift funds between direct payments and rural development, in line with national needs and targets.

A **new crisis reserve** will be created to address crises generated by unforeseeable developments in international markets or by specific shocks to the agricultural sector as a result of the actions of non-EU countries.

Cohesion Policy

In the same vein, the Commission is proposing to **modernise and strengthen Cohesion Policy**. Working together with other programmes, the funds will continue to offer essential support to the development of Europe's Member States and regions. The aim is to drive up convergence and to help **reduce economic, social and territorial disparities** within Member States and across Europe.

Moreover, Cohesion Policy will play an even more important role in the future by supporting the **ongoing economic reform** process in the Member States. The Commission proposes to strengthen the link between the EU budget and the European Semester of economic policy coordination.

The design of the new EU budget reflects President Juncker's call **to overcome divisions** and to make the Union more united. The main objective of cohesion policy is and will remain to **help Member States and regions lagging economically or structurally behind** to catch up with the rest of the

EU. Thus, the relative per capita gross domestic product will remain the predominant criterion for allocating funds – while other factors such as unemployment (notably youth unemployment), climate change and the reception and integration of migrants will also be taken into account. Details will be presented in the weeks to come.

What instruments are you proposing for a stable and efficient Economic and Monetary Union?

The Commission proposes 2 new instruments: **a Reform Support Programme** and a **European Investment Stabilisation Function**. These new instruments will help to support economic and social convergence and **maintain macroeconomic stability** in the euro area by supporting reforms that foster resilience domestically and by helping to maintain investment levels in the event of large asymmetric shocks.

They will **complement other EU funds**, notably the European Structural and Investment Funds and the new InvestEU Fund, and they will strengthen the link between the EU budget and the European Semester.

The **Reform Support Programme** – with an overall budget of €25 billion – will offer financial and technical support to all Member States for the pursuit of priority reforms, especially in the context of the European Semester. In addition, a **Convergence Facility** will provide dedicated support to non-euro area Member States on their way to joining the common currency.

A **European Investment Stabilisation Function** will help to maintain investment levels in the event of large asymmetric shocks. It will be in the form of back-to-back loans guaranteed by the EU budget of up to €30 billion, coupled with financial assistance to the Member State to cover the interest payments at the due date of reimbursement. The loans will give extra financial support at a time when public finances become stretched and priority investments must be maintained.

4. Key novelties of the new long-term budget - financing and Own Resources

Where does the money come from in the current long-term budget?

The revenue sources of the EU budget have remained the same over the last decades: customs duties, contributions from the Member States based on value added tax (VAT) and those based on gross national income (GNI). After a gradual decrease of customs duties, the GNI contributions became the predominant source of funding the EU budget (at about 80%, together with VAT-based contributions).

-**Customs duties** are levied on economic operators, collected at the external borders of the EU and go directly to the EU budget. Member States currently retain 20% of the amount as collection costs;

-The current **VAT** bases of all Member States are harmonised through a complex statistical process before a uniform rate of 0.3% is levied on each Member State, with some exceptions;

-The **GNI**Own Resource finances the part of the budget not covered by other revenues. The same percentage is levied on each Member State's GNI. The rate is fixed as part of the annual budgetary procedure. Some Member States benefit from a reduction.

What types of new funding sources are you suggesting for the new long-term budget, and why?

The Commission proposes to introduce a "basket" of new Own Resources, composed of:

-20% of the revenues from the **Emissions Trading System**;

-A 3% call rate applied to the new **Common Consolidated Corporate Tax Base** (to be phased in once the necessary legislation has been adopted);

-A national contribution calculated on the amount of **non-recycled plastic** packaging waste in each Member State (0.80 € per kilo).

Attributing a share of certain harmonised tax bases (such as the Common Consolidated Corporate Tax base) or other sources anchored in EU policies or legislation (such as the European Emissions Trading Scheme like non-recycled plastic packaging waste) to the EU budget is a way to improve synergies between the Union and national economies, and to better align the EU budget's funding with its policy priorities.

On the basis of the Commission's proposals, the share of the new Own Resources is estimated to amount to an annual average of around €22 billion over the 2021-2027 period, corresponding to approximately 12% the EU budget's revenues. This will contribute to financing new priorities and

reducing national GNI-based contributions accordingly.

In parallel, the Commission is proposing savings in some of the main spending areas and reforms across the budget to make it more streamlined and to get the most from every euro.

Creating new revenue sources for the EU budget is a big decision with high stakes – how is it taken, and by whom?

The Own Resources Decision, which sets out the EU's overall financing system, can only be changed with unanimity of Member States and ratification by national parliaments. As a result, such changes occur rarely. The last substantial, qualitative change dates back to the 1980s when the so-called *'Delors packages'* were adopted and the Gross National Income -based component was introduced to cater for the increase of expenditure related to the implementation of the Single Market and the enlargement to new Member States.

Why is the Commission proposing to increase the Own Resources ceiling?

The Own Resources Decision also includes a ceiling for annual calls for Own Resources in order to give certainty and predictability to Member States for their budgetary and financial planning. Today, this ceiling is set at 1.20% of EU GNI. With the United Kingdom's withdrawal, this ceiling automatically decreases by around 16% (which is to say, by the United Kingdom's share of EU GNI).

At the same time, the integration of the European Development Fund into the EU budget will need to be accompanied by an increase in the ceiling. A sufficient margin between that ceiling and the payments ceiling is also necessary to ensure that the Union is able – under any circumstances – to fulfil its financial obligations, even in times of economic downturns. This is also important for maintaining the EU's triple-A-rating.

The Commission therefore proposes to increase the Own Resources ceiling to 1.29% of the EU-27 GNI.

Now that the United Kingdom (which has a large rebate) is leaving, isn't it time to make the EU budget fairer and abolish the various rebates?

Making the budget fairer and simpler requires addressing the issue of rebates, some of which go back to the early 1980s. A number of Member States have been benefitting from a complex system of corrections and rebates, the most important of these being the United Kingdom correction – **the UK rebate.**

In addition, an increasing number of other correction mechanisms have been developed over time. Since 2002, Austria, Germany, the Netherlands and Sweden have benefited from a permanent reduction of their contribution to financing the UK rebate – the "**rebates on the rebate**". Additional reductions were also granted to certain Member States whose budgetary burden was considered excessive. Germany, the Netherlands and Sweden obtained temporarily reduced Value Added Tax call rates for the 2014-2020 period. Austria, the Netherlands, Sweden and Denmark also benefited from a lump-sum reduction to GNI-based contributions.

Likewise, the current share of 20% retained by Member States from all customs revenues does not correspond to the actual cost. Neither is it used for reinforcing customs control systems. It simply flows into national budgets without reflecting the needs and expenditure needed to protect the customs union. It can therefore be considered as **an indirect rebate** to certain Member States.

As a result, the gross amounts of corrections and rebates (even without taking into account the UK rebate itself) exceed a yearly amount of €5 billion for the current long-term budget. This has made the financing system of the EU budget overly complex and opaque, and less fair.

The United Kingdom leaving the EU provides an **opportunity to simplify and reform** the current, complicated system of rebates and rebates on rebates. The Commission proposes to eliminate all corrections on the revenue side (rebates) and to reduce the amount Member States keep when collecting customs revenues for the EU budget from 20% to 10%. Both measures will **make the EU budget fairer and more transparent.**

At the same time and in order to avoid a significant and sudden increase in the contributions as of 2021 of certain Member States, the Commission proposes **lump sum reductions** to their GNI-based contribution, which will be gradually **phased out over 5 years**, and totally eliminated by 2026. In the same vein, while reducing the collection costs retained by Member States the Commission also proposes to strengthen the financial support for customs equipment and information technology more targeted to the actual needs.

For More information

- EU budget: Commission proposes a modern budget for a Union that protects, empowers and defends (a press release of 2 May 2018)
- Fact sheets (2 May 2018)

MEMO/18/3621

Press contacts:

Alexander WINTERSTEIN (+32 2 299 32 65)
Mina ANDREEVA (+32 2 299 13 82)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email