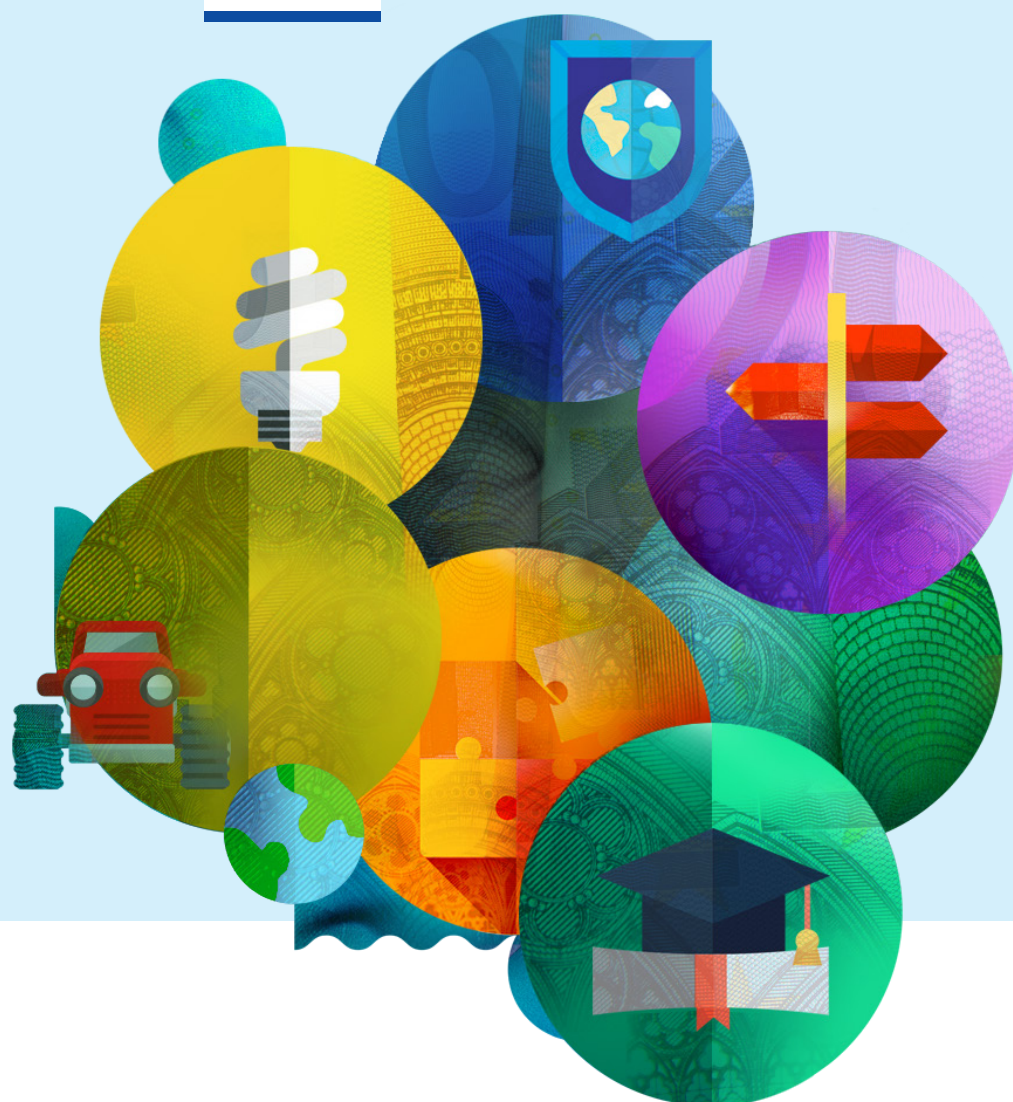




European
Commission



A Modern Budget for a Union that Protects, Empowers and Defends

Commission Note ahead of the
European Council
June 2018

The Multiannual Financial Framework
for 2021-2027





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The new budget is an opportunity to shape our future as a new, ambitious Union of 27 bound together by solidarity. The ball is now in the court of Parliament and Council. I strongly believe we should aim to have agreement before the European Parliament elections next year.

European Commission President, Jean-Claude Juncker, 2 May 2018

In February 2018, European Leaders discussed at 27 the priorities for the future long-term budget of the Union, the Multiannual Financial Framework 2021-2027. This will be the first long-term budget for the Union of 27. It is a historic opportunity to reform the budget and back political aspirations with the means to act.

Since then, the Commission has presented a comprehensive package covering the overall framework and the sectoral programmes. These proposals offer an ambitious, balanced and fair approach to delivering on the positive agenda agreed by the Leaders in Bratislava on 16 September 2016 and enshrined in the Rome Declaration of 25 March 2017. They will equip the Union with a modern and efficient budget for the future.

We have little – but sufficient – time to agree on the first long-term budget at 27. An early agreement is not only politically desirable: it is also a practical imperative. The adoption of the 2014-2020 budget led to significant delays before funding was received by, for example, small and medium-sized enterprises, regions, students, researchers or farmers.

The Leaders' discussion at the European Council on 28-29 June 2018 is an opportunity to send out a clear signal of our collective determination to work together to reach an early agreement. This will help get the Union of 27 off to the best possible start.

WHERE ARE WE: WHAT PROPOSALS ARE ON THE TABLE?

On 2 May, the Commission presented its proposals for a modern long-term budget for the 2021-2027 period. These proposals are built around the political priorities agreed by Leaders in Bratislava and in the Rome Declaration. The guiding principle is ‘European added value’.

These proposals are a realistic response to an exceptionally challenging context: technological and demographic change, climate change and scarce resources, unemployment, new security threats and the refugee crisis are compounded by geopolitical instability. Tensions with key trading partners and challenges to our values and to an international order based on rules and on cooperation do not make this task any easier.

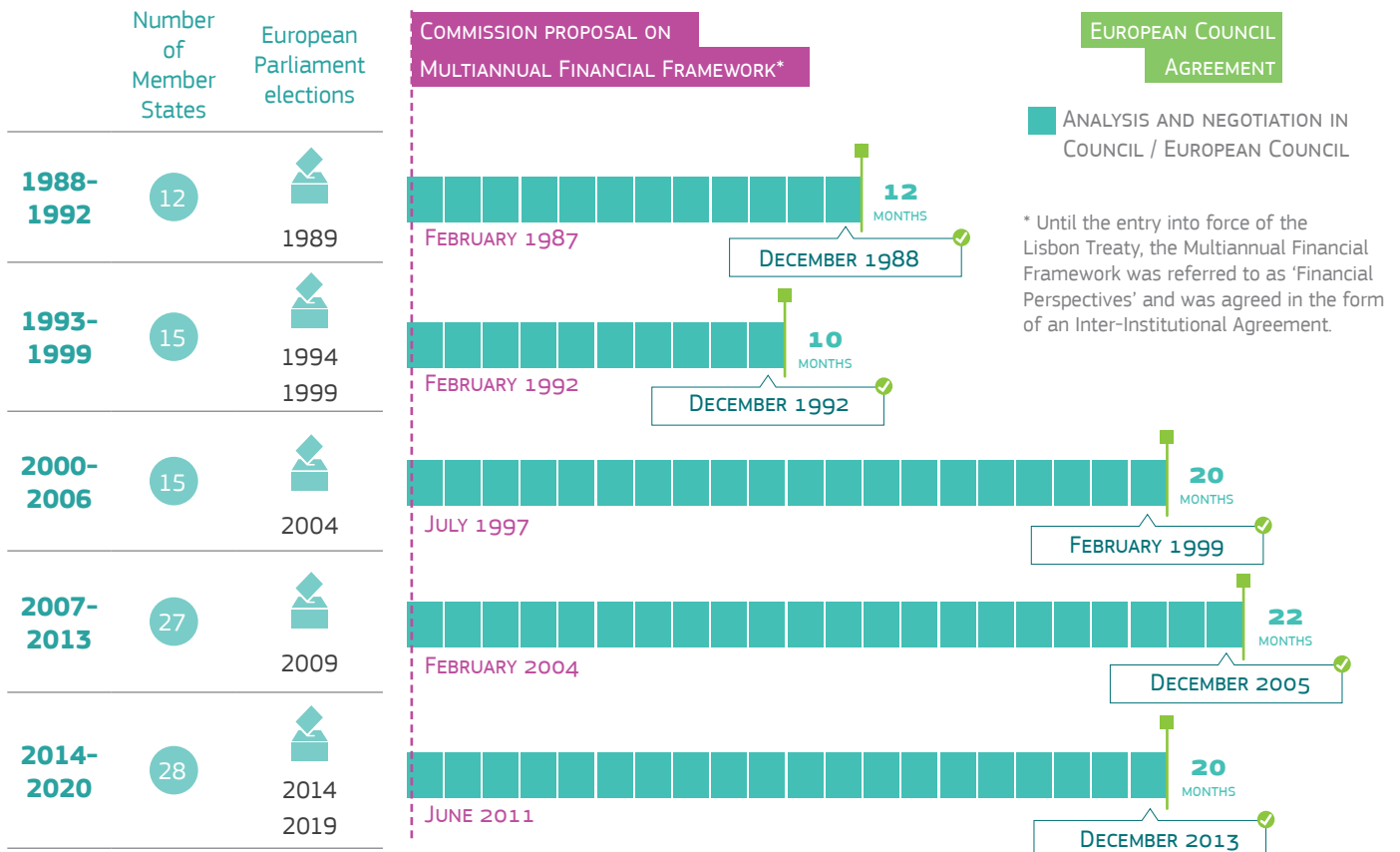
The departure of the United Kingdom will have serious consequences for the EU budget. Hard choices will have to be made. Targeted savings coupled with deep modernisation and innovative new programmes will equip the Union with a modern budget that delivers.

The long-term budget is agreed unanimously by the Council once the European Parliament has given its consent. Only a fair, balanced and truly European budget will pass this test. This is why the Commission proposes: a fair distribution of the cuts that are the inevitable consequence of the shortfall from the departure of the United Kingdom; a fair distribution of funding across policies and across Member States based on common priorities; and transparent, objective criteria as well as a fairer system for financing the budget with the same rules applicable to all.

Since 2 May, the Commission has moved swiftly and efficiently to flesh out this framework with the legal proposals for the 37 programmes¹ that will implement and support our political priorities. Each of these proposals is based on a rigorous assessment of the lessons learned from the current programmes and where the Union can contribute most effectively in future.

The complete package is now on the table. The Commission has provided an unprecedented level of transparency on the financial implications of the proposals². This provides the best possible basis for the hard work that is to come. The Commission is fully engaged in paving the way for a swift agreement on a reasonable and fair Union budget.

Multiannual Financial Framework: European Council agreement



¹ For legal reasons, a limited number of programmes are based on more than one legal act.

² For example, the Commission has provided from the outset and contrary to previous practice the distribution of cohesion and rural development funding per Member State.

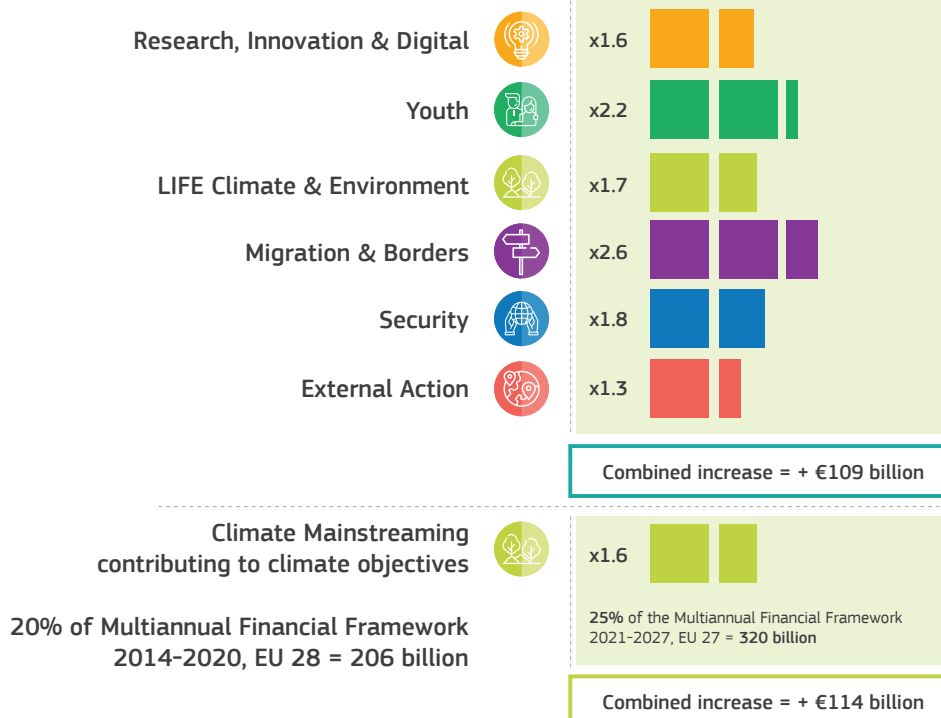
WHAT HAS THE COMMISSION PROPOSED?

A new budget to deliver efficiently on key priorities, where the European added value is particularly strong

The Commission proposes to boost funding in the areas where the Union can contribute most effectively to the new and reinforced priorities set out by Leaders in Bratislava and Rome. This will be done by expanding and modernising existing programmes with a proven track record, and by creating new tailor-made programmes in areas where a fresh approach is needed to help the Union deliver on its ambitions. For example:

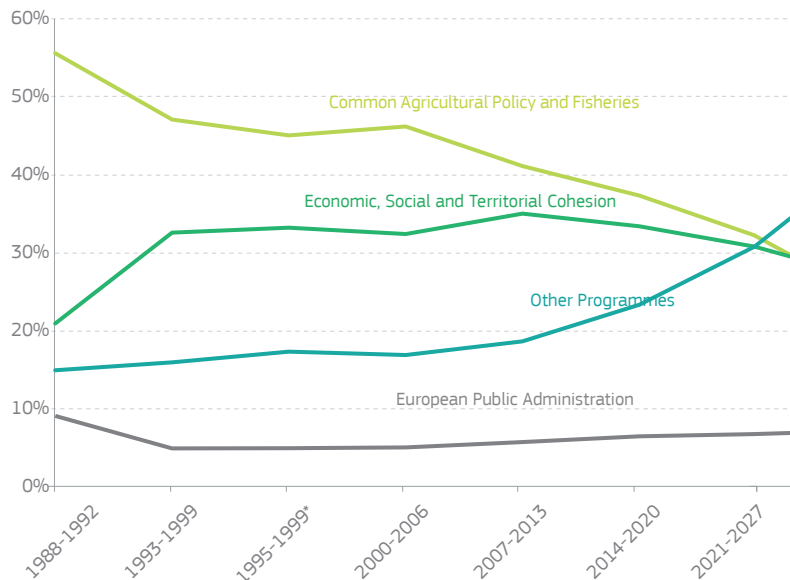
- Investing in **innovation and the digital economy**: Horizon Europe, including the European Innovation Council, will allow Europe to be at the forefront of global research and innovation. The new Digital Europe Programme will support the digital transformation of our society and economy.
- Creating **training and employment opportunities for young people**, through a strengthened Erasmus + programme offering more young people the chance to move to another country to learn or work; and through the European Solidarity Corps, giving European citizens the chance to engage in humanitarian activities in Europe and beyond.
- Continuing our work on a **comprehensive approach to migration and border management** to ensure a safe area for the free movement of persons and goods within the Union and to support the management and long-term integration of asylum seekers and migrants. Strengthened instruments will support cooperation on migration management and security, and help address the root causes of migration.
- Building up the Union's capacity in **security and defence** to protect EU citizens from security threats such as terrorist attacks, new types of organised crime and cybercrime. A significantly enhanced European Defence Fund aims to foster the competitiveness and innovative capacity of the Union's defence industry.
- Strengthening the EU's **external action**: the broad Neighbourhood, Development and International Cooperation Instrument will provide more coherence in tackling the challenges of the EU's external action.
- Investing in **climate action and environment** protection, through a more ambitious goal for climate mainstreaming across all EU programmes, with a target of 25% of EU expenditure contributing to climate objectives.
- The Commission also proposes new instruments to strengthen the **Economic and Monetary Union** within the Union framework, such as the Reform Support Programme and the European Investment Stabilisation Function.

Proposed Multiannual Financial Framework 2021-2027



The result of these changes will be a modern and refocused long-term budget. For the first time, around a third of the budget will be dedicated to new priority areas where the EU budget can deliver results for all Europeans that a purely national approach could not.

Evolution of main policy areas in the EU budget



Source: European Commission

*Adjusted for 1995 enlargement

A modern approach to traditional policies

Cohesion Policy and the Common Agricultural Policy will remain the largest programmes in the future long-term budget. The Commission is proposing a comprehensive reform and modernisation of both policies. This will allow both policies to fulfil their Treaty objectives and to contribute significantly to new priorities and economic reform. Savings in both policies, of around 6% and 5% respectively, are a necessary part of a balanced budget.

Savings of 6% and 5% respectively are savings expressed in current prices compared to 2020 levels with the United Kingdom allocation excluded. Comparisons with the 2014-2020 period in current and in constant prices have also been provided.

For the **Common Agricultural Policy**, the Commission proposes a new delivery model that will make the policy more modern and effective, with the focus firmly on ensuring a safe and high-quality food supply and supporting the transition towards a sustainable agricultural sector and a thriving rural economy. Member States will have more flexibility to decide how to use their funding, allowing them to design tailor-made programmes that respond most effectively to the concerns of farmers and rural communities. The reformed policy will help to make sure that national priorities and measures can be funded within a European framework.

Cohesion Policy will continue to make a major contribution to reducing economic, social and territorial disparities within Member States and across Europe. This will be combined with a stronger link with reform priorities under the European Semester and with new priorities such as a smarter Europe, a greener, low-carbon Europe, a more connected Europe, a more social Europe, and a Europe closer to citizens. The Commission has provided full transparency on the objective formula that will be used to allocate cohesion funding to Member States, based predominantly on relative gross domestic product per capita. Regions and Member States that have performed strongly, thanks in large part to cohesion policy, will naturally see a reduction in their allocation but the Commission has proposed unprecedented safeguards to make this a smooth transition.

A simpler, streamlined, more flexible budget

The EU budget has become too complicated, making life unnecessarily difficult for potential beneficiaries and obscuring what EU funding is for.

- The Commission proposes to **reduce the number of programmes** to 37, down from 58 under the current framework. New, streamlined programmes will be created in key strategic areas such as external action and the Single Market, making EU action more visible and better targeted. The new InvestEU fund will bring together all financial instruments together to catalyse investment across the Union, building on the success of the European Fund for Strategic Investments.
- The Commission also proposes to significantly **simplify the rules for EU funding**, cutting red tape and making it easier to apply for EU funding. A single rulebook will help to reduce the administrative burden for beneficiaries and managing authorities and make it much more straightforward for different programmes to work together to boost the impact of the EU budget. The Commission also proposes to simplify State Aid rules so that European and national funding can be more easily combined.
- The stability and predictability of the financial framework is an asset. But history has taught us to expect the unexpected. This is why the Commission proposes to build on the existing flexibility instruments and crisis management tools to make the EU budget **more responsive in a fast-changing world**.









Sound financial management and the rule of law

The Commission has strengthened the financial rulebook by introducing a new mechanism to protect the EU budget from generalised deficiencies in the rule of law in a Member State that can have serious consequences for sound financial management and effective EU funding. The new budgetary control mechanism will be objective and transparent and will apply to all. It is strictly separate from the mechanism provided for in Article 7 of the Treaty on European Union. The proposal is designed to ensure that individual beneficiaries do not suffer in the event that action has to be taken.

A fresh, fair approach to funding the EU budget

A package of new resources linked to the Emissions Trading System, the Common Consolidated Corporate Tax Base, and a national contribution calculated on the amount of non-recycled plastic packaging waste will help to forge a closer link between the benefits of common policies in areas like the circular economy and the single market, and the financing of the budget that supports these policies.

Moreover, the Commission proposes to gradually phase out the current complex system of rebates over a five-year period until national contributions reach a fair level comparable to other Member States not benefiting from a rebate. This gradual approach will avoid a sharp and sudden increase in national contributions as a result of this change.

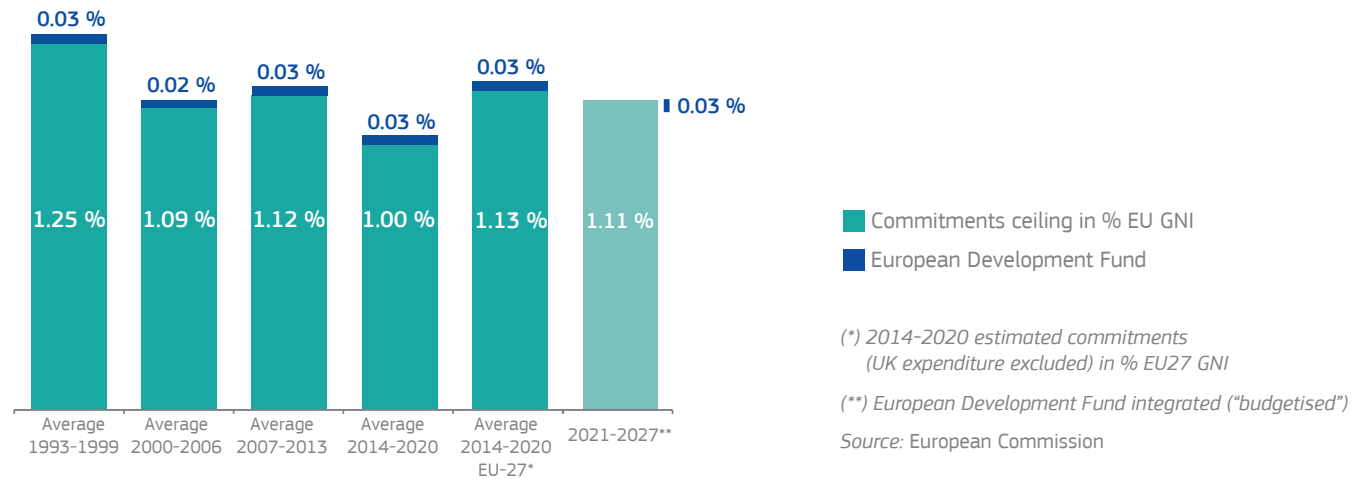
<p style="text-align: center;">Modernisation of existing Own Resources</p> <ul style="list-style-type: none">  Value Added Tax-based: simplified  Traditional Own Resources (mainly customs duties): lower collection costs (20% to 10%)  GNI-based contribution: smaller share 	<p style="text-align: center;">New Own Resources</p> <ul style="list-style-type: none">  Common Consolidated Corporate Tax Base  20% of revenues from emissions trading system  National contribution based on non-recycled plastic packaging waste
<p style="text-align: center;">Other revenues</p> <ul style="list-style-type: none">  Seigniorage (External assigned revenue for new Investment Stabilisation Function)  Revenues of new European Travel Information and Authorisation System 	<p style="text-align: center;">No rebates</p> <p style="text-align: center;">↓ Phasing out mechanism over five years</p> <p style="text-align: center;">Higher Own Resources ceiling</p> <p style="text-align: center;">↑↑↑ From currently 1.2% of GNI to 1.29% of GNI</p>

A balanced, reasonable and responsible package for the Union of 27

The Commission proposal of EUR 1 279 billion in commitments (in current prices) is equivalent to around 1.11% of the gross national income of the EU at 27. This compares to the current level of 1.16% for the EU27 when taking into account the European Development Fund which will be integrated in the EU budget for the first time.

The size of the EU budget as a percentage of gross national income (GNI)

Commitments ceiling in % EU GNI



The Union budget will remain a relatively small proportion of the European economy and total public spending. However, an increase in national contributions will be necessary in order for the Union budget to deliver efficiently in priority areas and to address the financial consequences of the United Kingdom's withdrawal. The bulk of this increase – around three quarters – is a result of economic growth and inflation over the period. Just as national budgets grow over time, the Union budget will need to keep pace in order to deliver in areas where pooling resources at European level is more efficient than national spending.

THE WAY FORWARD

The EU budget is a budget for all Europeans. The Commission's proposals are fair and balanced, combining additional financial efforts with deep modernisation and a strong focus on efficiency and budgetary rigour. This will allow the Union to move forward together with confidence to deliver on our common agenda.

Time is now of the essence. Now that all the proposals have been tabled, it is time to move swiftly to the next phase and prepare the ground for a political agreement that would be crucial for the future Union of 27.

By the time of the Sibiu Summit on 9 May 2019, the Union at 27 must show to its citizens and to the world that it is able to deliver on the priorities set out by Leaders in Bratislava and in Rome. Citizens would not understand if the Union were unable to agree within a reasonable time frame on a common long-term budget, equivalent to only 1.11% of the Union's Gross National Income. The priorities to be funded by this pragmatic proposal – including migration, innovation, security and economic growth – are shared by everyone.

This timetable is ambitious but it is both achievable and politically and practically necessary at this crucial juncture for the Union. The Commission has put forward fair and balanced proposals that will allow for a swift agreement. It will do its utmost to support the negotiations throughout this process.

The European Council will be instrumental in setting the tone and pace for the work to come, both within the Council and in the close cooperation with the European Parliament that will be an essential ingredient of a successful outcome. A clear signal is needed now of the priority attached to these negotiations and the importance of close cooperation between the European Parliament, the Council and the European Commission at every step.

The new Multiannual Financial Framework 2021-2027:
A Modern Budget for a Union that Protects, Empowers and Defends



I. SINGLE MARKET, INNOVATION & DIGITAL

1 Research & Innovation

- Horizon Europe
- Euratom Research and Training Programme
- International Thermonuclear Experimental Reactor (ITER)

2 European Strategic Investments

- InvestEU
- Connecting Europe Facility
- Digital Europe Programme (including Cybersecurity)

3 Single Market

- Single Market Programme (including Competitiveness and Small and Medium-Sized Enterprises - COSME, Food Safety, Statistics, Competition and Administrative Cooperation)
- EU Anti-Fraud Programme
- Cooperation in the Field of Taxation (FISCALIS)
- Cooperation in the Field of Customs (CUSTOMS)

4 Space

- European Space Programme



II. COHESION & VALUES

5 Regional Development & Cohesion

- European Regional Development Fund
- Cohesion Fund
- Support to the Turkish-Cypriot Community

6 Economic & Monetary Union

- Reform Support Programme including the Reform Delivery Tool and the Convergence Facility
- Protection of the Euro Against Counterfeiting

7 Investing in People, Social Cohesion & Values

- European Social Fund + (including Integration of Migrants and Health)
- Erasmus+
- European Solidarity Corps
- Justice, Rights & Values
- Creative Europe (including MEDIA)



III. NATURAL RESOURCES & ENVIRONMENT

8 Agriculture & Maritime Policy

- European Agricultural Guarantee Fund
- European Agricultural Fund for Rural Development
- European Maritime & Fisheries Fund

9 Environment & Climate Action

- Programme for Environment & Climate Action (LIFE)



IV. MIGRATION & BORDER MANAGEMENT

10 Migration

- Asylum & Migration Fund

11 Border Management

- Integrated Border Management Fund



V. SECURITY & DEFENCE

12 Security

- Internal Security Fund
- Nuclear Decommissioning (Lithuania)
- Nuclear Safety and Decommissioning (including for Bulgaria and Slovakia)

13 Defence

- European Defence Fund
- Connecting Europe Facility – Military Mobility

14 Crisis Response

- Union Civil Protection Mechanism (rescEU)



VI. NEIGHBOURHOOD & THE WORLD

15 External Action*

- Neighbourhood, Development and International Cooperation Instrument (including external aspects of migration)
- Humanitarian Aid
- Common Foreign & Security Policy
- Overseas Countries & Territories (including Greenland)

16 Pre-Accession Assistance

- Pre-Accession Assistance



VII. EUROPEAN PUBLIC ADMINISTRATION

17 European Public Administration

- Administrative Expenditure, Pensions and European Schools



INSTRUMENTS OUTSIDE THE MFF CEILINGS

- Emergency Aid Reserve
- EU Solidarity Fund
- European Globalisation Adjustment Fund
- Flexibility Instrument
- European Investment Stabilisation Function

*The European Peace Facility is an off-budget fund outside the Financial Framework