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From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	Multiannual Financial Framework (2021-2027) : State of play

Delegations will find in Annex a note by the Presidency outlining the state of play concerning the Commission proposals adopted on 2 May 2018 on the multiannual financial framework (MFF) 2021-2027, in view of the General Affairs Council meeting on 18 September 2018.

ANNEX

1. INTRODUCTION

1. The Presidency intends to report on a regular basis to the General Affairs Council on the state of play of work concerning the Commission proposals adopted on 2 May 2018 on the multiannual financial framework (MFF) 2021-2027.

   Building on the report presented at the end of the Bulgarian Presidency (ST 10171/18), this document outlines the progress achieved between 1 July and 7 September in the Council. It is based on discussions held in the ad-hoc working party (AHWP MFF) as well as the Working Party on Own Resources (WPOR) and on written input from delegations.

2. Under the Austrian Presidency, the AHWP MFF continued the technical clarifications phase begun by the Bulgarian Presidency.

   In the course of five meetings of the AHWP MFF held during the month of July 2018, the Commission gave detailed presentations of the sectoral proposals associated with Single Market, Innovation and Digital (Heading I), Migration and Border Management (Heading IV), Security and Defence (Heading V), Neighbourhood and the World (Heading VI) and European Public Administration (Heading VII). This gave delegations the opportunity to ask for clarifications and provide an initial response, bearing in mind that the detailed analysis of the proposals is still ongoing. At the request of delegations, the Commission answered orally and in writing several hundred questions and provided additional information and clarifications in 43 technical fiches.

   In close cooperation with the Commission, the Presidency also organised two technical seminars, on Natural Resources and Environment (Heading III) and European Public Administration (Heading VII) respectively, in order for the Commission to provide technical explanations on the assumptions and methodology used in preparing its proposals.

3. On 23 July 2018, to clarify positions in view of further work, the Presidency invited delegations to comment on the structure, flexibility, the *'Reste à liquider'* (the outstanding amount of payments on commitments made), synergies, European public administration, and own resources. Furthermore, the Presidency provided opportunities of bilateral technical consultations for delegations at the beginning of September 2018.

4. The AHWP MFF has had a thorough examination of all aspects of the overall MFF package, both on the expenditure and revenue side.

5. In addition to the work carried out in the AHWP MFF, sectoral working parties continued discussing technical aspects of the various sectoral proposals related to the MFF package. The Own Resources Working Party (WPOR) dedicated two meetings to examining the Commission proposals on Own Resources after which the chair of the WPOR debriefed the AHWP MFF.

6. To facilitate future work at horizontal and sectoral level, in July 2018 the Presidency provided delegations with its initial assessment of those sectoral provisions (bracketing) which were most likely to form part of horizontal negotiations on the MFF. The Presidency emphasized that this assessment was part of a dynamic process, and evolving as negotiations progress.

7. In line with the approach outlined in the letter of 2 May 2018 from Bulgarian Prime Minister Borissov, the Presidency is committed to conducting work on the MFF in a spirit of openness and good interinstitutional cooperation with the European Parliament. In particular, it will continue the established practice of organizing exchanges of views with representatives of the European Parliament before and after each General Affairs Council meeting when the MFF is on its agenda, so that each institution fully understands the position of the other.

8. On 25 July 2018, the Council decided to exercise its option of consulting the European Economic and Social Committee and the Committee of the Regions on the Commission proposal for a Council Regulation laying down the multiannual financial framework for the years 2021 to 2027. On 5 September 2018, the Council also decided to consult both Committees on the Commission proposal for a Council decision on the system of Own Resources of the European Union.

9. At the request of some delegations, the Council Legal Service has recently been tasked with examining one of the Commission proposals of the MFF package[1].

[1] Proposal for a Regulation of the European Parliament and of the Council on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States (ST 8356/18)

2. STATE OF PLAY IN THE COUNCIL

Duration

10. Delegations broadly agree with the seven year duration of the Commission's MFF proposal which in their view provides the right balance between flexibility and stability, while ensuring financial predictability for Member States and final beneficiaries.

Structure and Priorities

11. Most delegations agree with the proposed seven headings and consider that the proposal better reflects the common priorities agreed by Leaders in Rome (25 March 2017) and in Bratislava (16 September 2016).

12. Many delegations stress that while a modern budget has to respond to current and future challenges and political priorities, it should at the same time preserve the traditional Treaty-based policies (Cohesion and Agriculture) as, in their view, these policies retain a crucial role in achieving EU objectives including the continuation of the convergence process across the EU, and these policies continue to provide EU added value.

13. Other delegations prefer a stronger focus on current political priorities, new challenges and key issues of the future where in their view EU added value is the highest. These delegations call for the strict prioritisation of resources in a future Union of 27 Member States and insist on additional savings as regards traditional policies.

14. Some delegations stress that the MFF should in general be designed as a budget for the EU27, and question the need to introduce tools which are accessible only to certain Member States, such as the Convergence Facility or the European Investment Stabilisation Function.

15. While most delegations welcome the structure of the headings, clusters and a reduced number of streamlined programmes, delegations raised a number of concerns.

16. Some delegations believe that, in order to ensure continuity, comparability and visibility, funds in shared management under cohesion policy (including large parts of ESF+) should be kept together in a separate 'Cohesion' sub-heading. Other delegations welcome the Commission proposal to create a dedicated sub-ceiling for 'Economic, social and territorial Cohesion' instead of the current sub-heading.

17. Some delegations believe that the higher number of headings decreases the flexibility to transfer appropriations between programmes and makes it more difficult to develop an agenda spread across various headings. Some delegations suggest merging Heading IV and Heading V to achieve more flexibility while others welcome two separate headings.

18. While supporting the reduced number of programmes, many delegations stress that only programmes with interrelated objectives should be merged in order to avoid the dilution of specific policy objectives. As a consequence, some delegations are not in favour of merging some self-standing programmes. Some delegations propose further merging of programmes and special instruments such as the ESF+ and EGF, while other delegations oppose it.

19. All delegations agree that proposed changes should result in a reduction of red tape for beneficiaries and managing authorities. In addition, some delegations believe that Rural Development should continue to follow the same common governance framework as other shared management funds such as 'Cohesion' and 'Fisheries'.

20. Some delegations raise concerns over the new approach whereby a policy objective can be financed through a combination of funds, instruments and programmes. These delegations consider that in some cases the capacities of existing instruments should be further strengthened rather than creating new instruments with a similar purpose.

21. Some delegations welcome the proposal to establish a European Peace Facility and a European Investment Stabilisation Function outside of the EU budget, while others oppose it or call for further assessment.

Single Market, Innovation and Digital

22. Delegations welcome the Commission proposals in the area of Single Market, Innovation and Digital (Heading I). While many delegations are in favour of maintaining excellence as the driving principle under Horizon Europe, other delegations also insist on ensuring geographical balance and capacity building. Some delegations believe that under centrally managed programmes, it is necessary to earmark envelopes for less developed countries in order to address geographical balance.

Migration and Border Management; Security and Defence

23. Delegations welcome the Commission proposals in the area of Migration and Border Management (Heading IV) and Security and Defence (Heading V) as they consider that these consist of programmes delivering high European added value, reflecting the new political priorities set out by Leaders. However, some delegations request assurances that new political priorities are not financed at the expense of existing policies.

Neighbourhood and the World

24. Under Heading VI, Neighbourhood and the World, the Commission proposes to consolidate EU action instruments, so as to increase EU leverage and the impact of EU funds. While many delegations welcome the Commission proposal, some delegations insist that 'neighbourhood' should remain a separate instrument. Delegations further insist that the Commission proposals under this heading must deliver adequately on Leaders' priorities in the area of migration.

25. Some delegations welcome the proposed budgetisation of the EDF recalling the principles of budgetary unity, transparency, simplicity and democratic control; while other delegations would prefer to maintain the status quo in order to reduce pressure on scarce resources (notably on Cohesion and CAP), keep the EDF open to third-country participation, allow for increased flexibility and the ability to respond to new challenges, maintain visibility and retain existing implementation rules.

26. Delegations supporting EDF budgetisation flag that duplications between the EDF and current Heading IV programmes should be eliminated, and that EDF resources should follow general budget implementation rules.

European Public Administration

27. Most delegations believe that there is a need to explore further efficiency in the European Public Administration in the framework of a EU at 27, taking into account the impact of the exit of the United Kingdom. Some delegations would not endorse adjustments that would undermine the attractiveness of the European Public Administration, the quality of work of the institutions or adversely affect the issue of geographical balance. Other delegations believe that geographical balance among staff in the institutions is a separate issue from MFF expenditure.

28. Many delegations point to a number of areas which merit further work :
    - Expenditure related to salaries (i.a. career progression; deflator; salary adjustments; allowances);
    - Non-salary related expenditure (energy efficiency of buildings; open space offices; nominal freeze on non-salary related expenditure; investment in public service innovation; information and communication technologies; interinstitutional cooperation);
    - Expenditure related to pensions (retirement age; solidarity levy; pension contributions);
    - European Schools (savings targets).

29. Some delegations stress that the provisions of the 2013 reform package contains clear and precise provisions on the timeline, the reporting and the necessary elements that are to serve as a basis for any subsequent revision of the Staff Regulations and should therefore be complied with. Some delegations believe that adjustments should primarily be applied on non-salary related expenditure and be based on a comprehensive ECA audit of the administrative expenditure of all institutions and bodies.

30. Many delegations believe that all administrative expenditure should be grouped into one heading to ensure transparency and to allow for active monitoring and integral decision-making; other delegations support the Commission proposal to show the level of investment and contributions within the respective policy area, as per current and past practice. Independently of these considerations, some delegations support an improved reporting mechanism to ensure the transparency of administrative costs.

Flexibility

31. Delegations all agree that it is important to strike the right balance between flexibility and predictability. In that regard, most delegations think that the Commission proposal needs to be improved.

32. Some delegations support the flexibility instruments and amounts proposed to allow the EU budget to respond to unforeseen circumstances in truly exceptional cases. Some delegations insist on agreeing clear criteria for the use of the special instruments; other delegations insist on reducing the number of special instruments and their amounts. In particular, a number of delegations point to possible overlaps between the European Union Solidarity Fund and the Emergency Aid Reserve and some delegations propose to merge the Contingency Margin, the Flexibility Instrument and the Global Margin for Commitments.

33. Many delegations insist that special instruments be entered into the budget over and above the ceilings in both commitments and payments; other delegations insist on entering them both below the ceilings to respect the principle of financial discipline.

34. A number of delegations welcome the proposed substantial higher margins as, in their view, this would allow for the reallocation of resources within headings over the period; other delegations object to such margins.

35. Some delegations want more flexibility to transfer resources between headings and some delegations insist on stricter and harmonised carry-over rules.

36. Most delegations object to the proposed funding of the Union Reserve from the reuse of decommitments. Some delegations support the proposed Global Margin for Payments, others want to keep ceilings on amounts for this instrument.

37. A large number of delegations signal that the need for a mid-term review depends on the overall level of flexibility. Some delegations support the mid-term review as proposed; some could accept less flexibility provided that the mid-term review allows for increased expenditure where duly justified. Some delegations believe that the proposed mid-term review is planned to take place too soon and suggest that it be postponed. Other delegations do not see a need for a mid-term review at all due to the proposed increased flexibility. Many delegations insist that national envelopes remain protected in a possible mid-term review.

38. A number of delegations wish to further circumscribe the flexibility which would be provided by proposed voluntary transfer of resources from shared management to direct management.

'Reste à liquider' (RAL) - the outstanding amount of payments on commitments made

39. While some delegations raise concerns over the expected high level of RAL at the beginning of the next MFF, others believe it is a natural consequence of multiannual programming with long-term commitments.

40. While recognising that there should be specific transition modalities in the first year to return to the N+2 decommitment rule, some delegations see this proposal as an efficient instrument for reducing the RAL. However, many delegations want to maintain the N+3 rule.

41. Some delegations offer other ideas to reduce the RAL, including:
    - a timely adoption of the MFF package allowing for sufficient time for the programming of funds, and thereby avoiding any substantial re-programming of funds as was the case under the current MFF - this is considered to be a way to ensure a smooth transition between programming periods;
    - a better alignment of commitments with payments; ensuring sufficient payments in the annual budgets to avoid abnormal backlogs of unpaid bills, on the basis of better forecasting;
    - a reduction of the allocations for the European structural and investment funds; higher EU pre-financing and co-financing rates; fewer conditionalities - by contrast, some delegations believe that lower EU co-financing would increase ownership and thereby accelerate implementation;
    - stricter implementation of decommitment rules, softer rules for others, especially during the transition period;

- simplification of programmes, which is seen by some delegations as a precondition for achieving the full effect of the proposed gradual return to the N+2 rule; better use of technical assistance.

Synergies

42. Delegations in general support the goal of unlocking synergies as proposed by the Commission, they see it as a means to ensure more effective spending of public resources which meets the aim of a budget focused on results. At the same time delegations raise concerns over the risk that merging programmes and special instruments could result in overlaps between programmes, objectives being diluted and additional administrative burden when the objective should be to cut red tape and make efficiency gains.

43. Delegations recognise the added-value of synergies notably in the areas of Migration, Environment and Climate Change, Cohesion, as well as Agriculture, Horizon Europe and Digitalisation. Some delegations welcome the synergy in the proposed mix of financing sources, combining subsidies and financial instruments, and stress that the latter should be further developed in light of their leverage effect (e.g. InvestEU).

44. Some delegations question the spread of certain policies over different clusters and believe that the links and boundaries between instruments are unclear. In the area of migration, they ask for more clarity between the internal (reception, return, integration) and external (fight against root causes and prevention of irregular migration) dimensions of the policy, as well as between short and long term measures.

45. Many delegations generally support the proposed 25% earmarking of climate related expenditure. Some delegations request a more ambitious target, while other delegations believe that the target is too high given the proposed amounts for Cohesion and CAP.

46. Some delegations welcome the earmarking for research in the area of agriculture within Horizon Europe. Other delegations argue that the proposed increase in resources for direct management at the expense of shared management indirectly changes the allocation criteria from 'geographical balance' to 'excellence'. Some delegations believe that the efforts made by the Commission to prevent overlap result in depriving less-developed Member States of the opportunity to finance breakthrough innovations.

47. A large number of delegations opposes the proposed transfer between shared management and centrally-managed programmes, or insist that such a transfer should remain voluntary for Member States. Many delegations request a proportionate transfer from the Cohesion Fund to the CEF while others welcomed the proposed level and asked for more competition for the transferred amounts in order to encourage cross-border investments.

Own Resources

48. Delegations agree that the financing of the EU budget should be transparent, simple, predictable and fair. A broad majority of delegations recognises that the GNI-based own resource fulfils those criteria and therefore do not see a need to decrease its share. Some delegations, however, welcome the proposed basket of new own resources as a supplement to the GNI-based own resource allowing for reduced national (GNI) contributions.

49. Each of the new own resources proposed by the Commission is supported by some delegations and rejected by others. While each own resource has individual drawbacks, some delegations stress that they should be considered as a package and evaluated on their overall impact.

50. On the new VAT proposal, some delegations believe that the Commission proposal would reduce the administrative burden, while others doubt that. Several delegations would prefer to abolish the VAT-based own resource altogether.

51. While many delegations support the Commission proposal to reduce collection costs for traditional own resources from 20% to 10%, some delegations oppose it.

52. Some delegations propose alternative new own resources, such as a financial transaction tax or digital tax-based own resources.

53. Some delegations welcome the proposed phasing-out of the corrections. However, a majority insists on an immediate end of corrections or a more rapid phasing-out. Other delegations stress the need for corrections as a means to ensuring that no Member state is affected by an excessive budgetary burden.

54. On the principle of future other revenue accruing to the EU budget, set out in the Explanatory Memorandum to the Own Resources Decision (ORD), some delegations express readiness to include some provisions at ORD level, while a large majority is against the principle proposed by the Commission.

55. Delegations agreed to move the applicable call rates (Art. 1) and the Reference GNI (Art. 2), included in the Regulation laying down implementing measures, back to the ORD, as in the previous MFF.

56. Delegations underline that the departure of the United Kingdom from the EU and the proposed inclusion of new resources would introduce significant changes to the current distribution of national contributions. Delegations stated that they would not take a formal position before having analysed thoroughly the impact of the new proposals on their national contributions on the basis of comprehensive information on the underlying assumptions and the calculation methods.

3. NEXT STEPS

57. As requested by the European Council conclusions of 28 June, the Presidency will continue examining the proposals on the Multiannual Financial Framework for the period 2021-2027 in a comprehensive manner and as soon as possible.

58. After the initial technical clarification phase the Presidency now intends to identify, discuss and gradually elaborate possible elements of a future draft Negotiating Box. These elements will be drawn up and developed under the responsibility of the Presidency, they will not be binding on any delegation. The aim of the Presidency is to structure and facilitate a future agreement on the MFF. Hence, the elements of the future draft Negotiating Box will have an indicative and evolving character. The negotiations are guided by the principle that nothing is agreed until everything is agreed.

59. COREPER will continue to have the responsibility for preparing the work of the General Affairs Council on the MFF, particularly when it comes to identifying elements of the future draft Negotiating Box. Based on the examination by the ad hoc Working Party (MFF) of parts of the elements of the future draft Negotiating Box, COREPER and the General Affairs Council will discuss them with a view to preparing the Progress Report for the European Council in December.

4. QUESTIONS FOR THE MINISTERS

60. The Presidency has taken note of the comments made by delegations during preparatory discussions. Against this background Ministers are invited to concentrate on what they consider to be the politically most important issue(s) and reply to the following questions :

Are the delegations of the opinion that EU policy priorities and European added value are well reflected in the MFF proposal?

Regardless of the total volume (of the MFF), what is the delegations' view on the proposed allocations of EU funds to different policy areas?