



Brussels, 5 November 2018
(OR. en)

13473/18

LIMITE

CADREFIN 288
RESPR 41
POLGEN 191
FIN 824

NOTE

From: Presidency
To: Permanent Representatives Committee/Council
Subject: Multiannual Financial Framework (MFF) 2021-2027
- Policy debate

1. In line with the guidance of the June 2018 European Council, intensive work has been carried out on the Multiannual Financial Framework (MFF) package over the past months. Building on the legacy of the Bulgarian Presidency, the Austrian Presidency completed the clarification phase of all MFF-related proposals by the end of July.
2. As of September, the emphasis turned to identifying the possible elements of the future draft Negotiating Box. This work has now been carried out on all the expenditure Headings and horizontal issues.
3. The present note outlines the main elements identified by the Presidency that have emerged during the preparation of the possible elements of the future draft Negotiating Box as requiring further guidance. This is not an exhaustive list.
4. In this context, the Presidency invites Ministers to share their views on the issues which they consider of key importance for a future agreement.

I. HORIZONTAL ISSUES

1. There is broad agreement concerning the **structure** of the MFF, but the issue of a sub-ceiling or a sub-Heading for economic, social and territorial cohesion in Heading 2 ("Cohesion and Values") will require a political decision.
2. The **size** of the future MFF will require discussions, but for the moment the main focus has been on identifying balanced policy options, keeping in mind the consequences of a Union of 27 members.
3. The role of the EU budget in supporting the effective implementation of **EU-wide policy objectives** should be enhanced. In particular, discussions will be required on:
 - how to achieve a common understanding on the link between the EU budget and the European Semester;
 - the size of the overall target of the Union budget expenditures supporting climate objectives.
4. **Flexibility** will be reflected and delivered through margins and programming, thematic and non-thematic special instruments. While many details remain to be defined, two major questions will require political guidance:
 - whether the proposed structure and modalities of these instruments are the right one;
 - whether the amounts to be mobilised should be over and above the MFF ceilings for commitments and payments or not.

II. HEADING 1 - SINGLE MARKET, INNOVATION AND DIGITAL

5. The following questions will require political guidance:
 - the modalities and size of the EU's financial commitments concerning **large scale projects** such as the International Thermonuclear Experimental Reactor project (ITER) or the Space Programme;

- how to promote excellence within **Horizon Europe** while also addressing the participation gap and the innovation divide;
- the financial envelope for the **Connecting Europe Facility** (CEF), including the size and modalities of the transfer from the Cohesion Fund.

III. HEADING 2 - COHESION AND VALUES

Cohesion Policy

6. The following issues will need to be discussed in more detail:
- the **allocation criteria** for the funds concerned and the amounts allocated to Member States, as well as the link to EU policy objectives and the European Semester;
 - the amounts dedicated to the **Investment for jobs and growth** goal (resources available under the ERDF, ESF+ and Cohesion Fund), and for the **European territorial cooperation** goal (Interreg);
 - the **definition** of and **allocation** for the different categories of regions (less developed, transition and more developed regions);
 - the **reference period** used to underpin definitions and eligibility;
 - the **allocation methodology** to be followed to distribute support between goals, types of regions and funds;
 - the issue of **capping and safety nets** which establish a minimum and maximum level of transfers;
 - the co-financing rates, pre-financing rates and decommitment rules.

Economic and Monetary Union

7. Areas requiring political choices include:
- the opportunity, modalities and scope of the proposed **Reform Support Programme** (RSP), notably its Reform Delivery Tool and its Convergence Facility;
 - the opportunity, modalities and scope of the proposed **European Investment Stabilisation Function** (EISF).

Investing in people, social cohesion and values

8. Political guidance will be required on:
- the financial envelope for the proposed **ESF+**, how to manage its different strands (direct, indirect and shared management) and where it should fit in the architecture of Heading 2;
 - whether to dedicate funding under ESF+ to specific objectives (such as social inclusion and addressing material deprivation, or for targeted actions for young people not in employment as appropriate);
 - whether the objectives of the European Globalisation Adjustment Fund will be pursued by the ESF+;
 - the financial envelope for **Erasmus+** and whether to introduce a “DiscoverEU” strand.

IV. HEADING 3 - NATURAL RESOURCES AND ENVIRONMENT

9. Many elements will require careful consideration as concerns the Common Agricultural Policy (CAP), inter alia:
- how to pursue **external convergence of direct payments**;
 - how to implement **capping and degressivity** of direct payments for large beneficiaries;
 - the opportunity and modalities of an **agricultural reserve**;
 - how to provide **flexibility between the two pillars** of the CAP;
 - amounts dedicated and modalities applied to **rural development** (pre-financing and co-financing rates, decommitment rules).

V. HEADING 4 - MIGRATION AND BORDER MANAGEMENT

10. The following questions will require political guidance:
- the amount dedicated to the **Asylum and Migration Fund**, its distribution between a thematic facility and national programmes under shared management as well as the perimeter and list of allocation criteria used;

- the amount dedicated to the **Integrated Border Management Fund**, the architecture of the fund, the distribution of support between a thematic facility and national programmes under shared management as well as the perimeter and list of allocation criteria used;
- how to support the **European Border and Coast Guard Agency (EBCGA)**;
- how to ensure **synergies and complementarities** with other policy areas.

VI. HEADING 5 - SECURITY AND DEFENCE

11. The amounts allocated to the proposed **Internal Security Fund** will need to be determined, as will support to the **decommissioning of nuclear power plants** in three Member States.
12. The scope of support of the **European Defence Fund (EDF)** as well as the financial contribution under this Heading to CEF for military mobility will also require guidance.

VII. HEADING 6 - NEIGHBOURHOOD AND THE WORLD

13. Political guidance will be needed on:
 - whether to integrate the **European Development Fund** into this Heading;
 - whether to merge most of the existing instruments into a **Neighbourhood, Development and International Cooperation Instrument (NDICI)**, and whether it should include the current European Neighbourhood Instrument; its financial envelope and distribution between geographical and thematic programmes, as well as towards rapid response actions and response to emerging challenges;
 - amounts allocated to the **Humanitarian Aid Instrument** and to the **Instrument for Pre-Accession**;
 - whether to establish a **European Peace Facility**, the modalities of its financing, its perimeter and the amounts involved.

VIII. HEADING 7 - EUROPEAN PUBLIC ADMINISTRATION

14. Political guidance will be required on the necessity of further reform effort in this Heading as well as how to ensure that the European Public Administration **delivers on expectations** in a future Union of 27 Member States.

 15. It will also be important to establish whether **all administrative expenditure** should be grouped where feasible under this Heading, or whether administrative and programme support expenditure should remain within the various programme envelopes.
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