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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL AND THE COUNCIL**

Towards a swift agreement on a long-term budget for Europe's priorities

*The European Commission's contribution to the **European Council meeting on
13-14 December 2018***

TOWARDS A SWIFT AGREEMENT ON A LONG-TERM BUDGET FOR EUROPE'S PRIORITIES

1. Keeping up the momentum

The European Council meeting on 13-14 December will be a crucial milestone in the negotiations on the future long-term budget of the Union, ahead of the Sibiu Summit on 9 May 2019. It will be an opportunity to give new impetus to the process by consolidating the considerable progress already made and providing clear direction on the key features of the future framework. This will prepare the ground for the next, decisive political phase of work.

On 2 May, the Commission put forward proposals for a fair, balanced and modern budget to deliver on the most important issues for Europe's future, as outlined by Leaders in Bratislava on 16 September 2016 and Rome on 25 March 2017. This was followed with unprecedented speed by legislative proposals for the 37 sectoral programmes that will form part of the future long-term budget. These proposals have been widely recognised as a solid basis for the negotiations.

Intensive work in the European Parliament and the Council has enabled encouraging progress to be made. The European Parliament adopted its Interim Report on 14 November 2018¹ and will agree its positions on a number of sectoral proposals by the end of the year. In the Council, work led by the Bulgarian and Austrian Presidencies has allowed the key political issues for the future long-term budget framework to be identified in a draft 'Negotiating Box'². Partial general approaches have already been agreed on several specific programmes and others are on track. The European Economic and Social Committee³, the Committee of the Regions⁴ and the European Court of Auditors⁵ have also contributed to the debate.

Converting this momentum into a political agreement will require strong leadership from the European Council, working in close cooperation with the European Parliament, the Council and the Commission. With the European Parliament elections just around the corner, agreement by Leaders on the key parameters underpinning the new long-term budget by the time of the Sibiu Summit on 9 May 2019 would show that the Union at 27 is united and ready to deliver on the things that matter most to Europeans. It would make it possible to get the new programmes up and running by 1 January 2021, avoiding the unacceptable delays of the past.

¹ Resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement.

² The 'Negotiating Box' is a document of the Presidency that supports the horizontal negotiations in the European Council and in the Council. It includes a number of elements that will form the basis for a package deal for the European Council. It is built progressively, with the range of options narrowed over time.

³ Opinion of 19 September 2018.

⁴ Opinion of 9 October 2018.

⁵ Briefing Paper of 10 July 2018 on the Commission's proposal for the 2021-2027 Multiannual Financial Framework. The Court of Auditors has also submitted a number of more specific briefing papers related to different aspects of the next Multiannual Financial Framework.

The Commission calls on the European Council to confirm its goal of making maximum progress on the future framework by the time of the Sibiu Summit on 9 May 2019. A political agreement on the new long-term budget should be achieved by the European Council in October 2019. This would allow its adoption by the Council by the end of 2019 after the consent of the European Parliament.

A SWIFT AGREEMENT FOR THE BENEFIT OF ALL EUROPEANS

A swift agreement on the future long-term budget would allow the Union to look to the future with confidence. It would show Europe's strength and unity at a crucial moment for the Union, and demonstrate the capacity to act to protect, empower and defend. It would provide a boost to the economy and avoid damaging delays to essential investments, such as were seen in 2014.

A timely agreement would, for example:

- ▶ *accelerate Europe's **digital transformation**, investing in high-performance computing, artificial intelligence, cybersecurity and digital skills to compete on the global technology market;*
- ▶ *create tens of thousands **research jobs** already in 2021 and many more in the wider economy;*
- ▶ *allow over 100,000 projects funded under **Cohesion Policy** (e.g. business support, energy efficiency, healthcare, education, social inclusion) to start on time;*
- ▶ *allow 1,000,000 young people to benefit from an **Erasmus** exchange and give the opportunity to 40,000 young people to engage in **solidarity action** across Europe in 2021;*
- ▶ *support start-ups and small and medium-sized companies to realise their **investments**;*
- ▶ *ensure funding to a number of **large-scale infrastructure projects** such as Europe's space programmes, the Rail Baltica project or the Brenner base tunnel;*
- ▶ *significantly step up **defence** investments and capabilities, to enhance Europe's strategic autonomy in protecting and defending its citizens;*
- ▶ *support the development of a **fully integrated European border management system**, protecting the Union against trafficking, smuggling and fraud.*

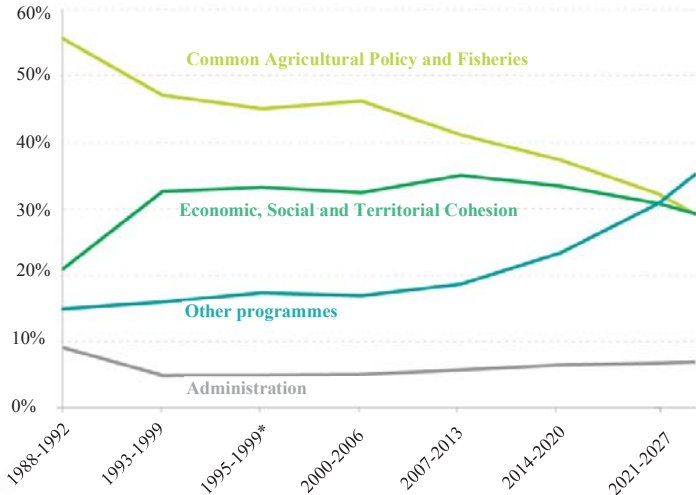
2. A modern, balanced package tightly geared to the Union's priorities

The EU budget reflects the Union's commonly agreed priorities and shows how they can be delivered. The political agenda set out by Leaders in Bratislava and Rome is the roadmap for the future long-term budget. At a time of immense challenges and opportunities, the Union of 27 needs a budget that will help it to deliver efficiently across all priorities. The budget should offer tangible answers to the challenges of technological, demographic and climate change. It should show how the Union is ready to protect itself against new security threats and geopolitical instability. And it should show unequivocally that Europe will continue investing in sustainable economic growth, as well as strengthening social and territorial cohesion.

The Commission’s proposals modernise the budget by providing a significant and necessary funding boost in key areas. From innovation to the digital economy, from training and employment for young people to climate action and the environment, from migration and border management to security, defence and external action, the budget will invest where it really counts. The proposal also provides the basis for strengthening and completing the Economic and Monetary Union, where there is an urgent need to speed up work on new instruments as part of the future financial framework.

Cohesion Policy and the Common Agricultural Policy will continue having a vital role to play for Europe’s future. The Commission has proposed to modernise these essential pillars of the EU budget so that they continue to evolve in line with new priorities and the changing economic and social realities. This will be done by better targeting support to where it is needed, updating priorities in line with the objectives set in Bratislava and Rome, introducing more effective delivery systems, and forging a much closer link with the economic reform process coordinated through the European Semester.

Evolution of main policy areas in the EU budget



Other programmes include for example:

- Horizon Europe
- Digital Europe Programme
- Single Market Programme
- Erasmus
- Asylum and Migration Fund
- Internal Security Fund
- European Defence Fund
- Neighbourhood, Development and International Cooperation Instrument

*Adjusted for 1995 enlargement

Source: European Commission

For the first time, the Commission has proposed that the largest share of the budget will be allocated to programmes such as Erasmus, Horizon Europe, Digital Europe, Border Management, and Security. Strong support for Cohesion Policy and the Common Agricultural Policy is also maintained.

As proposed by the Commission, it will be essential for the credibility of the new long-term budget to strike the right balance between these broad expenditure areas – agriculture and maritime policies, Cohesion Policy and the other programmes that will be so vital to Europe’s future.

3. A simpler, more streamlined, and more transparent budget

Over time, the EU budget has become too complicated, too fragmented and too burdensome when it comes to following the rules governing financial programmes. The resounding message from all stakeholders has been the urgent need for simplification and streamlining. This has been a recurring theme from the European Parliament and Council, as well as by beneficiaries large and small, from students to farmers, from small business to big business, from non-profit organisations to public authorities.

Heeding those calls, the Commission has proposed to simplify radically the budget. The new headings and clusters illustrate more clearly what the EU budget is for and how it supports the political priorities. The number of programmes has been reduced from 58 to 37⁶. New, streamlined programmes in strategic areas such as external action and the Single Market will make investment from the EU budget more visible and better targeted. It will also help fully exploit the synergies between different EU programmes. There is a stronger focus on performance and on sound financial management, including through the new mechanism designed to ensure that generalised deficiencies in the rule of law do not put the budget at risk. This further illustrates the emphasis placed on efficient and effective implementation.

⁶ For legal reasons, a limited number of programmes are based on more than one legal act.

A STREAMLINED FINANCIAL ARCHITECTURE

A streamlined budget with simpler rules will make it easier for different programmes and instruments to work together to boost the impact of the EU budget. For example:

- ▶ **InvestEU:** *pooling centrally managed financial instruments into InvestEU will allow for significant economies of scale and a standardised approach. Simplified and streamlined investment support, with one set of rules and procedures and one point of contact for advice, will help maximise the impact of these instruments.*
- ▶ **European Social Fund Plus:** *integrating several important instruments will enhance their impact and create synergies and complementarities. Financial support is becoming more flexible to respond to economic and social challenges, and the administrative burden for authorities and beneficiaries will be reduced.*
- ▶ **Single Market:** *the creation of a single integrated programme will increase the support of the EU budget for the Single Market. The new programme will reduce overlaps, enhance synergies and facilitate communication and networking with stakeholder groups. The new programme will offer greater value for money and cost efficiency.*
- ▶ **Border Management:** *the proposed integrated fund, with its two components on border management/visa and customs control equipment, will help ensure better and more integrated management of the EU's external borders, and a higher level of border security in the Union.*
- ▶ **External Action:** *the new integrated instrument for the neighbourhood, development and international cooperation will increase the effectiveness and visibility of the EU's external action. It will strengthen coordination with internal policies and give the EU the flexibility to respond more quickly to new crises and challenges.*

Significant progress has been made in the negotiations on the programmes proposed by the Commission. Many are now close to a partial general approach in the Council. While a number of issues still need to be addressed, the work to date shows that the architecture of the Commission's proposals for the next financial framework and the different programmes has found broad support.

The European Council should confirm the principle of a simpler, more streamlined budget, on the basis of the simplified architecture and programmes presented by the Commission.

4. A more flexible budget

The need for flexibility in the budget has never been more acute or more apparent than it is today. In a highly turbulent and uncertain world, it is impossible to predict where the EU will need to act in 2027. Flexibility instruments are therefore built-in throughout the budget. The value of this flexibility was shown when Europe needed to respond urgently to the economic and financial crisis, and later the migration crisis.

A FLEXIBILITY TOOLBOX TO ADDRESS EMERGING PRIORITIES AND EMERGENCIES

Since 2014, the EU budget helped to address new priorities and unforeseen needs, while ensuring tangible solidarity with regions in Europe and the rest of the world affected by emergencies. The various flexibility mechanisms were for example instrumental in:

- ▶ **Responding to the economic and financial crisis:** EUR 196 million was mobilised to support the reintegration in the labour market of displaced workers who lost their job as a result of major structural changes, in sectors such as the automotive industry, air transport, road transport, machinery and equipment, shipbuilding and manufacturing. The reinforcement of the EU Guarantee Fund of the European Fund for Strategic Investments by EUR 2.4 billion further supported the Fund's capacity to boost investment throughout Europe. The Youth Employment Initiative provides an additional EUR 1.2 billion between 2017 and 2020 for the integration of young people in the labour market.
- ▶ **Addressing the refugee crisis in Europe and in the neighbourhood:** reinforcements of over EUR 5.6 billion over the years 2015 to 2018 were provided to address the consequences of the refugee crisis within the EU and in the Union's neighbourhood, to reinforce border control and security, and to develop investment opportunities in countries of origin.
- ▶ **Showing the Union's solidarity:** EUR 1.6 billion worth of support was provided to regions in 16 Member States affected by natural disasters such as floods, forest fires, drought and earthquakes, EUR 1.5 billion was mobilised to reinforce the Union's humanitarian actions in countries affected by crises and in particular aid to refugees and persons displaced because of conflicts.

The future budget should be a more flexible budget. It is right to look critically at what could be done better, which the Commission did through its comprehensive spending review. The assessment shows that the current flexibility system works well. All of the current instruments serve a distinct purpose and should be the basis for the flexibility provisions in the future long-term budget.

This has been highlighted by the European Parliament which “agrees with the overall architecture of the flexibility mechanisms in the 2021-2027 MFF; stresses that the special instruments have different missions and respond to different needs, and opposes any attempts to merge them; strongly supports the clear provision that both commitment and payment appropriations deriving from the use of special instruments should be entered in the budget over and above the relevant MFF ceilings, as well as the removal of any capping to the adjustments flowing from the global margin for payments”.

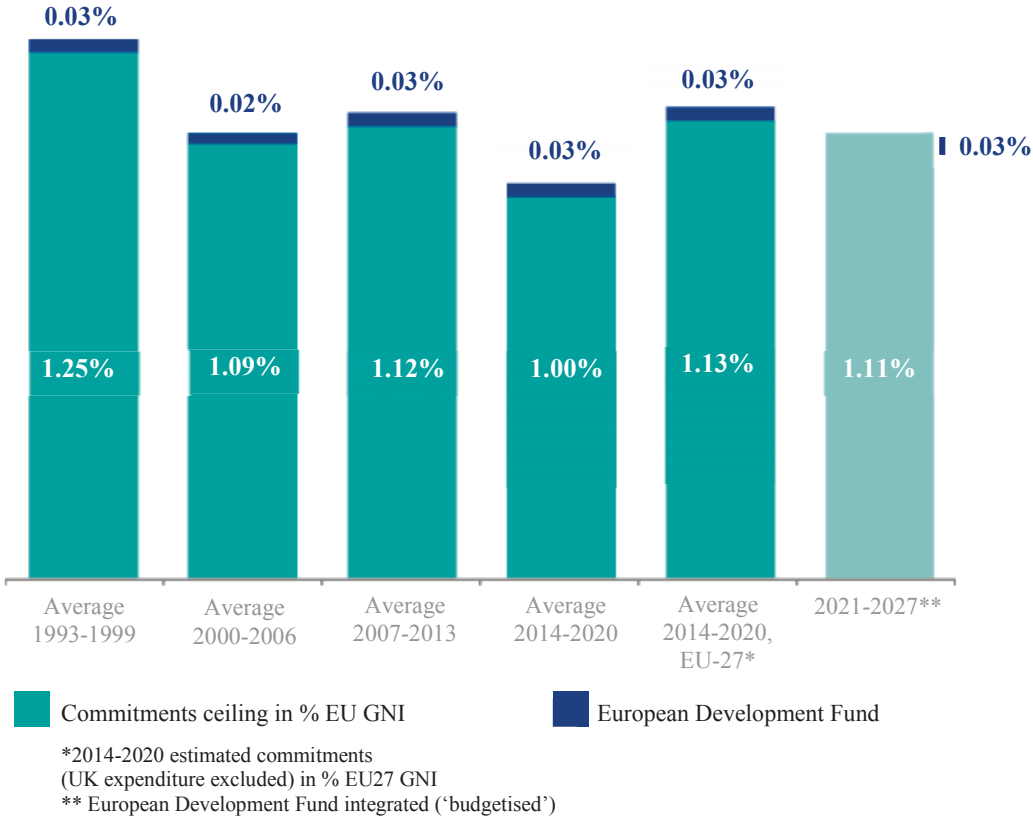
The European Council should confirm the need for a more flexible long-term budget to react quickly, decisively and efficiently in a fast-changing world, based on the architecture proposed by the Commission.

5. A fair budget that can deliver

Fairness lies at the heart of the Commission’s proposals and is key to an agreement on the future long-term budget, both in terms of how and where the EU budget is spent, and of how the budget is financed. This must be a budget for all Europeans, investing in areas where the EU budget can deliver what national budgets cannot. Where funding is allocated by Member State, the criteria used must be fair and objective, with the same rules applying to all.

The future long-term budget must also provide the Union with the resources needed to deliver efficiently and to rise to new challenges. At the same time, the financial consequences of the United Kingdom's withdrawal must be accounted for in a fair way. Proportionate savings must therefore inevitably be made in the largest spending areas.

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



Source: European Commission

The Commission has proposed a budget equivalent to around 1.11% of the gross national income of the future Union of 27 Member States. This is based on a rigorous assessment of the resources needed to deliver on the Union's objectives, while addressing the shortfall created by the United Kingdom's withdrawal in a balanced way. Some Member States have argued for a smaller budget. Others have joined the European Parliament's call for a larger one. The Commission's proposal strikes a fair balance that is both ambitious and realistic.

The principle of fairness must extend to the financing of the budget. The reform of the Union's own resources system is long overdue. This is a unique opportunity to make the system fairer and more transparent, as well as to diversify sources of financing.

The Commission has proposed a basket of possible new own resources chosen for their strong link with European policies. They would allow a share of the benefits of the internal market to accrue to the EU budget and be reinvested back into the European economy. Moving away from a system dominated by national contributions through the introduction of new own resources would help to shift the emphasis to the benefits of the EU budget to all Europeans.

A modern and fair approach to financing the EU budget also means that the same rules should apply for everyone. With the withdrawal of the United Kingdom the complex system of rebates and corrections will end. To cushion the impact of this change on Member States currently receiving a correction, the Commission has made the pragmatic proposal to phase out all corrections over a period of five years.

The Commission welcomes that reform of own resources is a top priority for the European Parliament. It also notes the willingness of many Member States to engage constructively on the possible introduction of new own resources.

The next Multiannual Financial Framework should allow the Union to deliver efficiently on its priorities in a way that is fair to all. As part of this, the European Council should support the ongoing work on the reform of the financing of the EU budget and agree on the principle of introducing new own resources.

6. Towards a swift agreement on a budget for Europe's priorities

The Union of 27 needs a modern long-term budget that is fairer, simpler and more flexible. The budget should allow the Union to deliver efficiently on the priorities Leaders agreed together in Bratislava and Rome. It should strike the right balance between the main spending areas and bring meaningful reform to the financing of the EU budget.

The Commission's proposals have been widely recognised as a fair and balanced basis for the negotiations. The rapid progress that has already been made in the European Parliament and the Council has created a solid platform for a swift agreement. Strong leadership from the highest political level is now needed to make this happen. It is not yet time to decide on figures. But a shared understanding about the principles and structure for the new budget is an important step towards a comprehensive agreement in the near future.

At a time of change for the Union, an early agreement on the future long-term budget would show that the Union is united and ready to act. Taking longer would delay the implementation of the future programmes, with real consequences for regions, small businesses, farmers, researchers and young people and everyone who benefits from the EU budget.

By the time of the Sibiu Summit, maximum progress on the future long-term budget should be achieved. A comprehensive agreement on the long-term budget, including figures, should follow in the European Council by October 2019 at the latest. This work should be done in close collaboration with the European Parliament, in view of enabling the adoption of the next Multiannual Financial Framework by the end of 2019.
