Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe

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The Special committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 adopted the report drafted by Salvador GARRIGA POLLEDO (EPP, ES) entitled "Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe".

The special committee was set up with the following mandate:

- to define the Parliament's political priorities for the post-2013 MFF both in legislative and budgetary terms,
- to estimate the financial resources necessary for the Union to attain its objectives and carry out its policies for the period starting 1 January 2014,
- to define the duration of the next MFF,
- to propose, in accordance with those priorities and objectives, a structure for the future MFF, indicating the main areas of Union activity,
- to submit guidelines for an indicative allocation of resources between and within the different headings of expenditure of the MFF in line with the priorities and proposed structure,
- to specify the link between a reform of the financing system of the EU budget and a review of expenditure.

Members recall that the special committee should present its final report before the Commission submits its proposals on the next MFF. It is this report which is the subject of this motion for a resolution. The recommendations may be summarised as follows:

Part I: Key challenges: Members note that the current crisis and severe constraints in public spending need a European response. They consider that 'Sustainable resources for the European Union' means first and foremost to rethink the 'resource system' of the EU-Budget in order to **replace the current national contributions with genuinely European resources**. They consider that the recent events show that the Euro zone is in need of bolder economic governance and that a monetary pillar without a social and economic pillar is doomed to fail.

Members focus on the following areas to overcome these challenges:

- building a knowledge-based society: they underline the need for investments in key areas such as education, research and innovation;
- combating unemployment by promoting decent work, working conditions and reducing poverty;
- the challenge of demography which will place strains on the welfare systems;
- climate and resource challenges: Members stress the need for the EU to immediately take action and lead the process towards an economy based on sustainable use of resources;
- internal and external security and personal freedoms;
- Europe in the world: becoming an assertive player;
- delivering good governance.

Part II: Optimising delivery: the role of the EU budget: Members consider it essential to amend the budgetary approach in order to:

- **strengthen European added value of the budget**: for Members, the main purpose of EU budgetary spending is to create European added value (EAV) by pooling resources, acting as a catalyst and offering economies of scale, positive transboundary and spill-over effects thus contributing to the achievement of agreed common policy targets more effectively or faster and reducing national expenditure. EU spending must always aim at creating greater value than the aggregated individual spending of Member States. EU funding should, wherever possible, contribute to more than one EU policy objective at a time (e.g. territorial cohesion, climate change adaptation, biodiversity protection). Members call for a **better coordination between the EU budget and the Member States' national budgets in financing the common political priorities**;
- **make the budget more efficient**: Members consider that priority should be given to the improvement of synergies between all funds of the EU budget that have an impact on economic development by basing the budget on success factors and performance and outcome indicators;
- **use the budget to leverage investment**: convinced that the EU budget is primarily an investment budget, which can generate more investment from public or private sources, Members call on the Commission to propose measures to extend the system of innovative financing, as well as a methodology for the coordination of funding from different sources. Against the background of the current financial crisis, Members stresses that the support of the EU budget will be needed to attract and mobilise private funds towards projects with European added value that are economically viable;
- **ensure sound financial management**: improving implementation and quality of spending should constitute guiding principles for achieving the optimal use of the EU budget and for the design and management of the programmes and activities post 2013. It is necessary that the design of spending programmes should pay utmost attention to the principles of clarity of objectives, full compliance with the community acquis and complementarity of instruments and actions, and full and agreed accountability. Members emphasise the need to address the trend of a growing level of outstanding commitments (RAL) which will by the end of 2013 amount to EUR 217 billion.

In this context, Members call for the strengthening of conditionality in EU aid programmes with the aim of improving democratic development and sound budgetary management, reducing the level of corruption and the capability to use EU support in a transparent, effective and accountable manner.

Part III: Political priorities: Members outline the political priorities for the next Multi-Annual Financial Framework. These are based on the following thematic principles:

(1) Europe 2020 strategy: Members believe that the Europe 2020 strategy should be the **main policy reference for the next MFF** but maintain, at the same time, that it is not an all-inclusive strategy covering all Union policy fields. It should help the EU recover from the crisis and come out stronger by improving the conditions for - and expenditure on innovation, research and development, meeting the EU's climate change and energy objectives, improving education levels and promoting social inclusion, in particular through reduction of poverty. Members warn that the development of a ten-year Europe 2020 strategy requires sufficient budgetary flexibility to ensure that budgetary means can be appropriately aligned with evolving circumstances and priorities.

(2) Economic governance: Members call for the European semester to also increase economic coordination among Member States in accordance with the Community method principle and to provide improved economic governance to the Eurozone and to the Member States wishing to join, thus reducing the need to make use of the Financial Stabilisation Mechanism. The European semester should focus on improving synergies between European and national public investments. The report notes that the European Stability Mechanism (ESM) after 2013 has been organised in a purely intergovernmental manner. Members stress the necessity of taking the Community method into account for the ESM.

(3) Knowledge for growth: Members concentrate on the following:

- **research and innovation**: public funds for R&D have to be substantially increased as public investment often provides an incentive for ensuing private investment. They stress the need to enhance, stimulate and secure the financing of research, development and innovation in the Union via a significant increase in relevant expenditure from 2013 notably for the Eighth Research Framework Programme. Again, a radical simplification of funding procedures is needed. They call for increased research into renewable energies, Digital Agenda and Space policy (with Galileo);
- **SMEs**: Members call for SMEs and entrepreneurs to be placed at the heart of the Europe 2020 strategy and demand, accordingly, enhanced support in the next MFF for all programmes and instruments aimed at fostering SMEs, in particular the Competitiveness and Innovation Programme (CIP) and the Small Business Act, as well as through the use of the Structural Funds;
- **improve qualifications**: Members point to the importance of adequately funding education, mobility schemes for young people, training and lifelong learning programmes, promotion of gender equality as well as measures aiming at adapting the labour market. They take the view that the flagship initiative on new skills and jobs should allow wider focus on the most vulnerable groups and people encountering difficulties in accessing the labour market, such as Roma. They underline the European Social Fund’s (ESF) fundamental role in meeting the Europe 2020 strategy’ s social and employment objectives.

(4) Cohesion for growth and employment: Members consider it necessary to simplify cohesion policy and to anchor it in the “Europe 2020” Strategy. They stress that a successful and strengthened cohesion policy needs adequate funding, and that the amounts allocated to it in the current financial programming period should be at least maintained in the next period. They reiterate, in this context, its strong request to ensure that, in the next MFF, the unspent or decommitted resources of cohesion funds remain in the EU budget and not be returned to the Member States. They recall their position that GDP per capita must remain the main criterion for determining the eligibility for regional policy assistance. The Commission is called upon to establish an intermediary category for the duration of the next programming period for regions whose GDP per capita stands at **between 75% and 90% of EU GDP**, in order to provide them with a clearer status and more security in their development.

(5) Management of natural resources and sustainable development: several issues are focused on by the committee, including:

- **CAP**: the Commission is called upon to present proposals for a reformed CAP, which aim at a more effective and efficient allocation and use of the CAP budget, inter alia, via a fair distribution of direct payments between Member States, regions and farmers and to maintain the amounts allocated to the CAP in the budget year 2013;
- **Environment, climate change**: the committee calls for the continuation of the LIFE+ and NATURA 2000 and for the need for a horizontal approach, combining measures to combat climate change and to reduce greenhouse gas emissions;
- **energy**: the energy’s share in the next MFF should increase and renewable energy technologies, energy efficiency and energy saving should be key priorities. A corresponding increase of EU funding in these areas is requested;
- **Trans-European networks**: the report underlines the urgent need to modernise and upgrade the European energy infrastructure (estimates that substantial investments of approximately EUR 1000 billion by 2020 are needed in this field; a global investment of EUR 500 billion will be required for the period 2007-2020 for TEN-Transport).

(6) Citizenship, freedom, security and justice: Members stress the need for the appropriate financing of the immigration, asylum and security policies and also taking into account the priorities of the EU while implementing them. They stress the need for an integrated approach towards pressing immigration, asylum questions as well as towards the management of the external borders of the Union. The budget for the Stockholm programme should be strengthened. They welcome the Commission's intention to reduce the total number of budgetary instruments in Home Affairs in a two pillar structure and where possible under shared management.

(7) Europe as a global actor: reiterating the deep concern at the chronic under-financing of this heading, Members call for adequate financial resources and efficient flexibility mechanisms in order to enable the Union to respond to global challenges and unforeseen events. They reiterate their request that budgetary implications deriving from any new commitments and tasks taken up by the Union must be additional to programmed amounts, in order to avoid jeopardising existing priorities.

As external action priorities, Members highlight their commitment to **poverty alleviation** actions in the framework of the Millennium Development Goals (MDG), and the collective Official Development Aid (ODA) target of 0.7 % of gross national income (GNI) and the budgetisation of the European Development Fund (EDF).

Members emphasise that stepped up financial commitments are needed for the Union to live up to major challenges - support to democratic transition and consolidation, good governance, human rights- and high expectations deriving from this moral responsibility. They call for the strengthening of conditionality in EU aid programmes with the aim of improving democratic development and sound budgetary management, reducing the level of corruption and the capability to use EU support in a transparent, effective and accountable manner.

The committee calls for the next MFF to take into account: (i) the costs of future enlargements; (ii) crisis prevention and management; (iii) humanitarian aid; (iv) natural disasters (through a totally neutral instrument).

(8) Administration: Members call on the Commission to present a clear analysis of administrative expenditure post-2013, duly taking into account the efficiency gains to be derived from an optimal use of human resources. Such analysis should investigate the scope for synergies and, notably, savings, inter alia through restructuring, further interinstitutional cooperation, review of each institution's and body's working methods and working places. **They also point to the significant savings that could be made if the European Parliament were to have a single seat.**

Part IV: structure of the financial framework: in order to create a structure to reflect priorities, Members propose the following structure for the next MFF:

1. Europe 2020

- 1a. Knowledge for growth including research and innovation, education and lifelong learning and internal market policies;
- 1b. Cohesion for growth and employment including cohesion (economic, social and territorial) and social policies;
- 1c. Management of natural resources and sustainable development including agriculture, rural development, fisheries, environment, climate change, energy, and transport policies;
- 1d. Citizenship, freedom, security and justice including culture, youth, communication and fundamental rights and freedom, security and justice policies.

2. Global Europe including external action, neighbourhood and development policies.

3. Administration.

Overall, Members consider that, in view of the integrated character of the Europe 2020 strategy, and in order to ensure that budgetary means are appropriately aligned with the progressive development of the strategy, it is essential that a higher degree of flexibility is ensured among the four Europe 2020 subheadings.

Margins: Members call for the creation of a '**global MFF margin**' serving all headings below the overall MFF ceiling and above the separate available margins of each heading to be mobilised in the framework of the annual budgetary procedure. Such margin should also receive the unspent margins as well as the decommitted and unspent appropriations (commitments and payments) of the previous budgetary year. They also considers that in order to improve transparency and visibility an additional '**reserve margin**' below the own resources ceiling and above the MFF ceiling should be used for including the risks of defaults linked to the loan guarantees of the European Financial Stabilisation Mechanism and the Facility providing medium-term financial assistance to non-Euro area Member States' balances of payments.

Flexibility: once again, Members reiterate that more flexibility within and across headings is an absolute necessity for the functioning capacities of the Union not only to face the new challenges but also to facilitate the decision-making process within the institutions.

They believe that these proposals must be complemented by a reallocation flexibility to transfer between headings in a given year and by increased flexibility between sub-headings. Members consider it crucial to maintain special instruments (Flexibility Instrument, European Globalisation Adjustment Fund, European Union Solidarity Fund, Emergency Aid Reserve).

The duration of the MFF: in order to strike the right balance between stability for programming cycles and implementation of individual policies, and the duration of the institutions' political cycles –in particular those in the European Commission and the European Parliament, Members believe that a 5-year cycle fully complies with the Parliament's expressed will to align, as much as possible, the MFF duration with the duration of the institutions' political cycles, for reasons of democratic accountability and responsibility. However, they are concerned that a 5-year cycle might be too short.

Members note that the 10-year MFF, as proposed by the Commission in the Budget Review, could provide substantial stability and predictability for the financial programming period but, it may increase the rigidity of the MFF and render the adjustments to new situations extremely difficult.

They consider, however, that a **5+5 cycle could only be envisaged if an agreement on a maximum level of flexibility**, including an obligatory mid-term review, **was reached** with the Council and enshrined in the MFF regulation.

Members take the view that for the next MFF a 7-year cycle, set until 2020, should be the preferred transitional solution as it could provide for more stability by ensuring the continuity of the programmes for a longer period, and also make a clear link with the Europe 2020 strategy.

Part V: Matching ambitions with resources: although fully conscious of the difficult fiscal adjustments that many Member States are making to their national budgets, Members emphasise that the EU budget, at its **current overall level of 1% of GNI, is not capable of closing the financing gap deriving from additional financing needs arising from the Treaty** as well as from existing policy priorities and commitments such as: (i) the achievement of the Europe 2020 headline targets; (ii) the increase of research and innovation spending from currently 1.9% of GDP to 3% of GDP; (iii) the necessary investments in infrastructure (including ITER and Galileo); (iv) the additional financing needs related to the future enlargement of the EU; (v) the financing of the existing European Financial Stabilisation Mechanism; (vi) the financial effort related to the attainment of the Millennium Development Goals

(MDG) to spend 0.7% of GNI on development aid, i.e. around EUR 35 billion annually further to the current spending of 0.4 % of GNI; (vii) the pledges resulting from the Copenhagen and Cancun agreements aimed at helping developing countries combat climate change. Members are of the firm opinion that **freezing the next MFF at the 2013 level (1.06% of GNI) as demanded by some Member States, is not a viable option**.

Members are convinced that at least a 5% increase of resources is needed for the next MFF.

The Special committee reiterates that without sufficient additional resources in the post-2013 MFF, the Union will not be able to fulfil the existing policy priorities.

Towards a more transparent, simpler and fairer financing system: Members stress that the way the system of own resources has evolved, gradually replacing genuine own resources by the so- called 'national contributions', places disproportionate emphasis on net-balances between Member States thus contradicting the principle of EU solidarity, diluting the European common interest and largely ignoring European added value. In practice, this state of affairs means that the size of the budget is affected by the financial circumstances of individual Member States, as well as their attitude towards the EU. **Members strongly call for an in-depth reform of EU resources**. They call for the creation of an autonomous, fairer, more transparent, simpler and equitable financing system, which can be better understood by the citizens as well as ending of existing rebates, exceptions and correction mechanisms. The committee is convinced that the **introduction of one or several genuine own resources for the Union, in order to replace the GNI-based system**, is indispensable if the Union is ever to get the budget it needs to significantly contribute to financial stability and economic recovery. It insists that the **Union should be able to collect directly its own resources** independent from the national budgets. The introduction of a new system would not increase the overall tax burden for citizens, but instead reduce the burden on national treasuries. Members take note of the potential new own resources proposed by the Commission in its Communication on the Budget Review (taxation of the financial sector, auctioning under the greenhouse gas Emissions Trading System, EU charge related to air transport, VAT, energy tax, corporate income tax) and await the conclusions of the impact analysis of these options.

Part VI: interinstitutional negotiation process: Members recall that the consent of the Parliament, given by a majority of its component members, is compulsory for the adoption of the MFF by the Council, acting unanimously. They call on the institutions to carry out negotiations in order to find agreement on a text to which Parliament can give its consent and welcomes the commitment of the Council Presidencies to ensure an open and constructive dialogue and collaboration with the Parliament during the whole procedure for the adoption of the future MFF. They urge the Council and the Commission to make every effort necessary to swiftly reach an agreement with the Parliament on a practical working method for the MFF negotiating process. They demand a firm commitment by the Council to discuss in the context of the MFF negotiation the proposals on new own resources. In this context, they propose that a **Convention-type conference on the future financing of the Union** be convened, which must include Members of the European Parliament as well as of national parliaments.