Analysis of the MFF Negotiation-Box for the EU Recovery: the EUCO President proposal

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Ahead of the extraordinary MFF European Council (17-18 July) where EU leaders will meet face-to-face for the first time in four months, the European Council President Charles Michael has put on the table a new version of the so-called “MFF Negotiation-Box” that sets the ground for the discussion in which EU leaders could potentially reach an agreement. The proposal covers both the MFF 2021-2027 and the EU Recovery Instrument “Next Generation EU”.

The approach is based on the last EUCO President proposal in February, which has been adapted in the light of the proposals of the European Commission setting up the EU plan for the recovery (May 2020) and which the CPMR analysed in detail.

This note analyses the budget allocations and legislative provisions with a specific attention to the CPMR core policy areas of interest. This note:
- Summarises the initial points of analysis from the CPMR General Secretariat (‘key takeaways’)
- Details the budget allocations per heading for CPMR core areas for the MFF and Next Generation EU (section 2)
- Analyses the key elements of the revamped MFF and the EU Recovery Instrument on the main points that affect CPMR core areas of interest (section 3).

CPMR GENERAL SECRETARIAT KEY TAKEAWAYS

- The CPMR General Secretariat welcomes that the ambition showed by the European Commission with the EU Recovery Plan has been taken on board by the President of the European Council. The additional EUR 750 billion borrowed from the financial markets will be crucial to deploy a fast and immediate recovery plan for all EU citizens and regions.

- However, it is worrying that the negotiating-box further reduces the size of the regular MFF compared to the Commission revised proposal (with even sharper cuts compared to the May 2018). The recovery plan should not be used to justify cuts to the MFF in a sort of sum zero game
The CPMR General Secretariat warmly welcomes the EUR 5 billion “Brexit adjustment reserve” to counter adverse consequences in Member States and sectors that are worst affected by the UK departure from the EU. The mechanism mirrors closely what the Atlantic Arc Commission of the CPMR and the broader CPMR have advocated in the past two years. The CPMR General Secretariat expects that the concrete proposals to be presented by the European Commission in November 2020 consider regional allocation criteria and target the most affected regions and sectors, such as fishing, seaports, tourism and maritime connections.

The proposal to raise to 30% the mainstreaming of EU funds on climate is a positive element. It’s essential that that EU recovery proposal is geared towards increasing investments in a climate neutral, competitive and resilient economy.

The CPMR General Secretariat regrets that the Just Transition Fund allocation in the regular MFF has been kept at EUR 7.5 billion, meaning that the revised allocation of 10bn EUR proposed by the Commission has not been upheld. An adequate budget for the JTF is key to ensure a fair and just transition that considers every region’s challenges and conditions for transition to climate neutrality.

The CPMR General Secretariat notes that the overall cohesion policy budget has not suffered further cuts in this “Negotiation-Box” proposal as it has happened reiteratively in the last two years of MFF negotiations. Despite this, it is worth noting that the provisional allocations for cohesion policy would suffer a 2% cut compared to the initial 2018 proposal – and a reduction by around 12% compared to 2014-2020 levels –, without taking into account the funding stemming from the “Next Generation EU” instrument.

The CPMR General Secretariat welcomes the increased EU co-financing rates proposed for cohesion policy. In particular, co-financing rates for less developed regions and transition regions are set at the same levels as 2014-2020 in line with the CPMR demands. However, it is disappointing that the co-financing rate for less developed regions, outermost regions and Interreg are still below the 2014-2020 levels.

It is regrettable that the negotiating box disregards Commission’s proposal to deliver a mid-term technical review of cohesion policy allocations in 2024 to take account of the impact of the crisis. The break-down for 2021-2027 would thus remain based on obsolete regional data (2014-2017) despite the sharp fall of GDP in a great number of regions.

The CPMR welcomes the re-introduction of the decommitment rule N+3 as during the 2014-2020 period, rather than the N+2 proposed by the European Commission in May 2018.

The introduction of an earmarking under the Connecting Europe Facility (CEF) for the completion of missing railway cross-border links between cohesion countries implies a decrease of the envelope available to finance other transport projects. The CPMR General Secretariat particularly questions the ability of the remaining CEF envelope, 10 billions, to reach the other objectives of the Programme.

The CPMR General Secretariat is still concerned about the little territorial dimension of the EU Recovery Instrument “Next Generation EU”. Regional allocation criterion for REACT-EU and the Recovery and Resilience Facility have not been considered nor a stronger involvement of local and regional authorities is envisaged in the governance of the instruments, in particular in the preparation of the national recovery investment plans. Notwithstanding, the allocation key for the RRF will be updated in 2023 by replacing the 2015-2019 unemployment criterion by the cumulative loss in GDP observed over the period 2020-2021 which will allow to take into consideration the actual economic impact of the COVID-19 crisis.
1. Budget allocations per heading for CPMR core areas

1.1 Overall size of the EU budget

The proposal presents an overall MFF budget of EUR 1.074 billion for the period 2021-2027, not including the EUR 750 billion from the EU Recovery Instrument “Next Generation EU”.

<table>
<thead>
<tr>
<th>Overall budget size (in EUR billion)</th>
<th>Finnish Presidency Negotiation-Box (Dec’19)</th>
<th>EUCO President Negotiation - Box (Feb’20)</th>
<th>EC proposal Incl. [Next Gen. EU] (May’20)</th>
<th>EUCO President Negotiation-Box Incl. [Next Gen. EU] (July’20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.134,6</td>
<td>1.087</td>
<td>1.094</td>
<td>1.850 [750]</td>
<td>1.824 [750]</td>
</tr>
<tr>
<td>% EU GNI</td>
<td>1.11%</td>
<td>1.07%</td>
<td>1.074%</td>
<td>1.4% [0.4%]</td>
</tr>
</tbody>
</table>

1.2 Budget allocation per Headings

The following tables compare the financial allocations for policies of relevance to CPMR Members (in EUR million, in 2018 prices).

### COHESION POLICY

<table>
<thead>
<tr>
<th>Heading 2. Cohesion and Values</th>
<th>EC proposal (May’18)</th>
<th>FI PRES Negotiation-Box (Dec’19)</th>
<th>EUCO PRES Negotiation-Box (Feb’20)</th>
<th>EC proposal Incl. [Next Gen. EU] (May’20)</th>
<th>Change (July’20 vs EC proposal’18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment for Jobs and Growth</td>
<td>322 194</td>
<td>313 000</td>
<td>315 300</td>
<td>315 700</td>
<td>-6 494 (-2%)</td>
</tr>
<tr>
<td>Less developed regions</td>
<td>198 621</td>
<td>195 600</td>
<td>200 000</td>
<td>199 700</td>
<td>+1 079 (+0.5%)</td>
</tr>
<tr>
<td>Transition regions</td>
<td>45 934</td>
<td>42 200</td>
<td>44 900</td>
<td>46 000</td>
<td>+66 (+0.1%)</td>
</tr>
<tr>
<td>More developed regions</td>
<td>34 842</td>
<td>34 200</td>
<td>27 800</td>
<td>27 400</td>
<td>-7 442 (-21%)</td>
</tr>
<tr>
<td>Territorial Cooperation</td>
<td>8 430</td>
<td>7 930</td>
<td>7 930</td>
<td>7 930</td>
<td>500 (-5.9%)</td>
</tr>
<tr>
<td>Cross-border</td>
<td>4 440</td>
<td>5 683</td>
<td>5 693</td>
<td>5 693</td>
<td>+1 253 (+28%)</td>
</tr>
<tr>
<td>Transnational</td>
<td>2 649</td>
<td>1 474</td>
<td>1 466</td>
<td>1 466</td>
<td>-1 183 (-44%)</td>
</tr>
<tr>
<td>Sub-total</td>
<td>(7 089)</td>
<td>(7 157)</td>
<td>(7 159)</td>
<td>(7 159)</td>
<td>+70 (+1%)</td>
</tr>
<tr>
<td>Interregional</td>
<td>100</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>+400 (+400%)</td>
</tr>
<tr>
<td>Outermost regions</td>
<td>270</td>
<td>273</td>
<td>271</td>
<td>271</td>
<td>+1 (+0.4%)</td>
</tr>
<tr>
<td>Interregional Innovation</td>
<td>970</td>
<td>970</td>
<td>970</td>
<td>970</td>
<td>(under ERDF) (mainstreamed)</td>
</tr>
<tr>
<td>Under ERDF</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Under ETC</td>
<td>470</td>
<td>470</td>
<td>470</td>
<td>470</td>
<td></td>
</tr>
<tr>
<td>Additional funding for NSPAs and outermost regions</td>
<td>1 447</td>
<td>1 400</td>
<td>1 400</td>
<td>1 400</td>
<td>-47 (-3%)</td>
</tr>
</tbody>
</table>

| REACT-EU                       | 41 348               | 39 700                            | 40 700                              | 40 682                                      | -648 (-1.6%)                     |
| Cohesion Fund                  | 50 000               | 50 000                            | 50 000                              | 50 000                                      |                                  |
| European Social Fund\(^1\)     | 88 646               | 86 300                            | 85 600                              | 85 284                                      | -2 746 (-3.1%)                   |
| Specific for outermost regions and northern sparsely populated regions\(^2\) | 377                 | 370                               | 250                                 | 250                                         |                                  |
| Transnational cooperation      | N/A                  | 175                               | 175                                 | 175                                         |                                  |
| European Regional Development Fund | 200 600             | 197 200                           | 196 900                             | 196 892                                     | -3 708 (-1.8%)                   |

\(^1\) Allocation of the ESF+ under the Investment for Jobs and Growth goal.

\(^2\) Inclusion of Northern Sparsely Populated Areas as territories to receive a specific allocation of the ESF+. These territories were not considered under the Finnish Presidency negotiation – box nor the European Commission proposal.
## TRANSPORT

<table>
<thead>
<tr>
<th></th>
<th>EC proposal (May’18)</th>
<th>FI PRES Negotiation-Box (Dec’19)</th>
<th>EUCO PRES Negotiation-Box (Feb’20)</th>
<th>EC proposal (May’20)</th>
<th>EUCO PRES Negotiation-Box (July’20)</th>
<th>Change (July’20 vs EC proposal’18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecting Europe Facility</td>
<td>37 488</td>
<td>30 896</td>
<td>29 896</td>
<td>29 896</td>
<td>28 396</td>
<td>-9 092 (-24%)</td>
</tr>
<tr>
<td>Transport</td>
<td>27 151 incl. 10 000 from CF incl. military mobility: 5767</td>
<td>23 884 incl. 10 000 from CF incl. military mobility: 2500</td>
<td>22 884 including 10000 from CF incl. military mobility: 1500</td>
<td>22 884 including 10000 from CF incl. military mobility: 1500</td>
<td>21 384 including 10 000 from CF incl. military mobility: 1500</td>
<td>-5 767 (21%)</td>
</tr>
</tbody>
</table>

### NATURAL RESOURCES AND ENVIRONMENT

<table>
<thead>
<tr>
<th></th>
<th>EC proposal (May’18)</th>
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<th>EUCO PRES Neg-box Incl. [Next Gen. EU] (July’20)</th>
<th>Change (July’20 vs EC proposal’18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heading 3: natural resources and environment</td>
<td>336 623</td>
<td>346 582</td>
<td>354 082</td>
<td>402 032 [45 000]</td>
<td>355 600</td>
<td>+ 65 409 (19.4%)</td>
</tr>
<tr>
<td>European Agriculture for Rural Development</td>
<td>70 037</td>
<td>80 037</td>
<td>72 537</td>
<td>90 013 [15 000]</td>
<td>75 000</td>
<td>+ 19 976 (28.5%)</td>
</tr>
<tr>
<td>Just Transition Fund</td>
<td>N/A</td>
<td>N/A</td>
<td>7 500</td>
<td>40 000 [30 000]</td>
<td>37 500 [30 000]</td>
<td></td>
</tr>
</tbody>
</table>

## MIGRATION AND BORDER MANAGEMENT

<table>
<thead>
<tr>
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<th>EC proposal (May’18)</th>
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<th>EC proposal (May’20)</th>
<th>EUCO PRES Negotiation-box (July’20)</th>
<th>Change (July’20 vs EC proposal’18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heading 4: Migration and border management</td>
<td>30 829</td>
<td>23 389</td>
<td>21 890</td>
<td>31 122</td>
<td>21 890</td>
<td>-8 393 (-29%)</td>
</tr>
<tr>
<td>Asylum and Migration Fund</td>
<td>9 205</td>
<td>9 205</td>
<td>8705</td>
<td>11 000</td>
<td>8 705</td>
<td>-500 (-5%)</td>
</tr>
</tbody>
</table>

## EUROPE AND THE WORLD

<table>
<thead>
<tr>
<th></th>
<th>EC proposal (May’18)</th>
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<th>EUCO PRES Negotiation-Box (Feb’20)</th>
<th>EC proposal (May’20) Incl. [Next Gen. EU]</th>
<th>EUCO PRES Neg-box Incl. [Next Gen. EU] (July’20)</th>
<th>Change (July’20 vs EC proposal’18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heading 6: Europe and the World Heading</td>
<td>108 929</td>
<td>103 217</td>
<td>101 905</td>
<td>118 205 [15 500]</td>
<td>98 400</td>
<td>-10 529 (-9.6%)</td>
</tr>
<tr>
<td>Neighbourhood, Development and International Cooperation Instrument</td>
<td>79 216</td>
<td>75 492</td>
<td>75 492</td>
<td>104 672 [10 000]</td>
<td>70 800 [15.500]</td>
<td>-8 416 (-10.6%)</td>
</tr>
</tbody>
</table>
2. Key policy elements within the revamped MFF

The following section analyses the key elements of the revised MFF, including those elements part of the EU Recovery Instrument, that affect CPMR core areas of interest.

The European Council President, Charles Michael based this Negotiation-Box on the one he presented back in February 2020. For the sake of conciseness, this section refers to the elements that have been modified compared to the previous proposal and compared to the European Commission proposal on the EU Recovery Instrument presented in May. For further information, please see our previous analysis on the EUCO Negotiation-Box February 2020 and European Commission proposal - May 2020

2.1 Horizontal issues

**WHAT’S NEW!**

- The target of EU expenditure contributing to climate objectives should be at least 30% (an increase up from the 25%).
- Up to 15% of the initial financial allocation of the ERDF, CF and the ESF+ can be transferred towards the same Funds within a Member State’s allocation for“ Investment in jobs and growth” goal → The EUCO February proposal considered a 10% figure.
- Reassurance that the funding conditionality as regards the rule of law deficiencies in Member State is maintained.

*Already present in the EUCO President version of the Negotiation-Box (February 2020)*

- No MFF mid-term review
- A maximum of 5% of the total initial national allocations can be transferred from funds under shared management (of the CPR) to any instrument under direct or indirect management or to any other of the funds of the CPR, at the beginning of the period and during implementation.

2.2 Heading 1: Single Market, Innovation and Digital

**WHAT’S NEW!**

- Insertion of the “Next Generation EU” tools: EU Solvency Support Instrument under EFSI and the Strategic Investment Facility within Invest EU.
- Introduction of an earmarking under the CEF for the completion of missing railway cross-border links between cohesion countries.

*Already present in the EUCO President version of the Negotiation-Box (February 2020)*

- The option selected for the Cohesion Fund envelope in the Allocation to CEF – transport:
  - out of which EUR 10 000 million will be transferred from the Cohesion Fund to be spent in line with the CEF Regulation: 30% shall be made available based on high degree of competitiveness among Member States eligible for funding from the Cohesion Fund and 70% shall respect the national allocations under the Cohesion Fund until 2023 and thereafter based on full competition between Member States eligible for the Cohesion Fund
- Allusion to the need for synergies between Horizon Europe and the structural funds, thereby enhancing regional R&I capacity and the ability of all regions to develop clusters of excellence.
- A dedicated Just Transition Scheme will be established under InvestEU as the second pillar of the Just Transition Mechanism.
2.3 Heading 2: Cohesion and values

WHAT’S NEW!

– Specific modifications to the Recovery and Resilience Facility (RRF) versus the European Commission proposal
  – The distribution of loans and grants under RRF remains untouched: EUR 310 billion of grants and EUR 250 billion of loans.
  – The allocation criteria have been changed in order to take into account the actual GDP loss in the Member States.
    - 70% of the grants provided by the RRF shall be committed in the years 2021 and 2022 following the European Commission criteria (population, inverse GDP per capita and the average unemployment rate over the past five years compared to the EU average).
    - In the allocation key for the year 2023, the 2015-2019 unemployment criterion is replaced by the cumulative loss in GDP observed over the period 2020-2021 and will be calculated by 30 June 2022.
  – In relation to the national recovery plans that Member States will have to present to the European Commission to benefit from the Facility’ economic resources, the proposal made by the President of the European Council establishes a stronger role for the Council.
    - It introduces the need that the assessment of the plans that will be done by the European Commission shall be approved by the Council via qualified majority. The European Commission will propose an implementing act which the Council shall endeavor to adopt within 4 weeks of the proposal.
  – Addition of the REACT-EU provisions without modifications in relation to the European Commission proposal.
    - The negotiating box clarifies that the flexibility measures under the CRII and CRII+ regulations shall apply in their entirety to the REACT-EU funding.
  – Increased co-financing rates. Co-financing rates for categories of regions shall be no higher than: 85% for the less developed regions (up from 75% in previous negotiating box); 70% for transition regions that in the 2014-2020 programming period were classified as less developed regions (up from 65%); 60% for the transition regions (up from 55%); 40% for the more developed regions. In addition: the co-financing will not be higher than: 80% for outermost regions (up from 75%), 85% for the Cohesion Fund (up from 75%) and 70% for Interreg programs. Co-financing rates for less developed regions and transition regions as well as for the Cohesion Fund are set at the same levels as 2014-2020.

  – All funds under the Next Generation EU shared management programmes (REACT-EU) are subject to the N+3 rule. This is particularly relevant for REACT-EU given that the Commission proposal has envisaged a shorter timeframe for decommitment whereby funding committed in 2020-2021-2022 shall be spent by end 2023.

– On ERDF thematic concentration: Thematic concentration for transition regions and less developed regions on PO1 “Smart Europe” established at 40% and 25%. → Decrease from 45% and 30% under the February proposal respectively.

– No technical adjustment envisaged. As part of the revised MFF, the Commission proposed in May an amendment to the Common Provisions Regulation to introduce a technical adjustment in 2024 (of up to 10 EUR bn) so as to take account of the impact of the crisis. The negotiating box does not take on board this new provision.
Additional allocations to specific Member States and territories as per its island condition. In order to recognize the challenges posed by the situation of island Member States and the remoteness of certain parts of the European Union, Malta and Cyprus shall receive an additional envelope of EUR 100 million each under the "Investment for growth and jobs" goal. The outermost regions of France shall be allocated an additional envelope of EUR 100 million under the Structural Funds.

Already present in the EUCO President version of the Negotiation-Box (February 2020)

Classification of regions: Less developed regions (below 75% of the average GDP per capita), transition regions (between 75% and 100% of the average GDP per capita) and more developed regions (above the 100% of the average GDP per capita).

The decision of ERDF regional or national thematic concentration will be decided at national level at the beginning of the programming period.

Split of the Interregional Investments Component budget (EUR 970 million) between EUR 500 million dedicated to interregional innovation investments under ERDF and EUR 470 million that remain under ETC while allocated to the other ETC components.

Reinforced link between Cohesion Policy and respect of fiscal rules at EU level (macroeconomic conditionality)

The ETC allocation methodology considers the population criterion living within 25 Kilometers of the border.

2.4 Heading 3: Natural resources and environment

WHAT’S NEW!

A stricter conditionality is established for the Just Transition Fund. Access to funding will be limited to Member States that have committed to a national objective of climate neutrality by 2050.

Already present in the EUCO President version of the Negotiation-Box (February 2020)

Climate action target under CAP: the share of the CAP expenditure that is expected to be dedicated to climate action shall be 40%.

The distribution key for the Just Transition Fund will be in line with the Commission’s proposals.

2.5 Heading 4: Migration and Border Management

WHAT’S NEW!

The proposal for a reinforced Asylum and Migration Fund and Integrated Border Management Fund (up to EUR 22 billion) presented by the European Commission on its revised proposal has not been taken into account and the budget allocated to the instruments (EUR 14.210 billion) remains as in the February Negotiating-Box.

Reinforced cooperation with third countries in relation to external migration now places particular emphasis on those bordering the EU or close to EU borders

The proposal to increase the fixed amounts for Member States experiencing the highest number of asylum seekers per capita in 2018 and 2019 (Cyprus, Greece, Malta) to EUR 25 million in both the AMF and IBMF in the February Negotiating Box has been removed.

2.6 Heading 5: Resilience, Security and Defense

WHAT’S NEW!

Incorporation of the EU health programme “EU4Health” (EUR 9.4 billion) and a reinforced rescEU in line with the proposal of the Commission to respond to COVID-19.
2.7 On Revenues

WHAT’S NEW!

- **Introduction of new own resources** in order to finance the “Next Generation EU” Instrument. Following the European Commission suggestions on a range of taxes as new sources of revenue, the EUCO President establishes the introduction of new own resources in 2021: plastic levy, carbon adjustment mechanism, digital levy.

  - A plastic levy will be introduced and apply as of 1 January 2021 composed of a share of revenues from a national contribution calculated on the weight of non-recycled plastic packaging waste with a call rate of EUR 0.80 per kilogram with a mechanism to avoid excessively regressive impact on national contributions.
  - The European Council will ask the European Commission to put forward in the first semester of 2021 proposals on a carbon border adjustment mechanism and on a digital levy, with a view to their introduction at the latest by 1 January 2023.
  - In the same spirit, the Commission will put forward a proposal on a revised ETS scheme, possibly extending it to aviation and maritime.

- Open door to other new own resources in the course of the next MFF as for example a Financial Transaction Tax.

- **Rebates** are maintained for: Denmark, Germany, the Netherlands, Austria, and Sweden.

2.8 Flexibility: Thematic Special Instruments

WHAT’S NEW!

- **Introduction of a Brexit Adjustment Reserve.** Establishment of a Brexit reserve to ‘counter unforeseen and adverse consequences for most affected countries and sectors’ of EUR 5 billion. The Commission is invited to present a proposal by November 2020.