Analysis
February 2020

Analysis of the MFF Negotiating Box: the EUCO President Proposal

The Council of the EU has released a **new version of the MFF Negotiation Box** ahead of the **extraordinary European Council called for the 20th February** where EU leaders will meet to discuss the proposal and try to reach an agreement on the Multiannual Financial Framework 2021-2027.

The proposal comes after a round of bilateral meetings between the President of the European Council (EUCO), Charles Michel, with all EU Leaders in the last weeks. The EUCO President took the lead in the negotiations following the failure of the Finnish Presidency to present an acceptable proposal[1] to Member States at the European Council in December.

The CPMR General Secretariat got its hands the revised version of the MFF negotiation box which will form the basis of discussions on Thursday 20 February. This note:

- Analyses the scale of the proposed cuts relating to Cohesion Policy allocations at Member State level compared to the 2014 – 2020 period (section 1)
- Compares the budget allocations per heading between the EC proposal (May 2018), the FI negotiating box (Dec 2019) and Charles Michel's proposal (Feb 2020) for CPMR core areas (section 2)
- Summarises the CPMR General Secretariat first impressions on the main points that affect CPMR core areas of interest (section 3)

INITIAL REACTIONS

The CPMR General Secretariat messages on the revised version of the Council negotiation box include the following:

→ **The CPMR is disappointed to see the unambitious EU budget size presented by the European Council President**. The 1.074% of the EU GNI is much lower than the 1.114% presented by the European Commission. The CPMR strongly believes that an ambitious European Union should be supported by an ambitious budget of the 1.3% EU GNI and unreservedly restates its support to the European Parliament position (see statement to the European Council adopted in October 2019).

→ **The CPMR regrets that Cohesion policy is suffering cuts in comparison to the European Commission proposal, and specifically compared to the 2014-2020 period**. The CPMR strongly reiterates the need to protect Cohesion policy as one of the main pillars of the European project and as the best placed policy to deliver EU priorities such as the European Green Deal.

[1] Finnish Presidency Negotiation-Box

→ **The CPMR is extremely concerned about the strong cuts proposed to More Developed Regions.** The 20% reduction of the allocations for regions eligible under more developed regions category compared to the Commission proposal is unacceptable. **The CPMR recalls that Cohesion policy has been instrumental to tackle inequalities and boost competitiveness across all areas of Europe irrespective of their level of development.**

→ **The CPMR has strong concerns on the additional EUR 7.5 billion for the Just Transition Fund coming on top of the Commission proposal as several programmes and policies have reiteratively suffered cuts in comparison to the European Commission proposal.** The CPMR has strongly advocated for the need of "fresh funding" and that the establishment of an additional fund should not be used as a pretext to justify further cuts to the Cohesion policy envelope in the context of the MFF negotiations. On the distribution of the Just Transition Fund allocation see our comments in the CPMR analysis on the Just Transition Fund.

→ The CPMR takes note of the changes on the own revenues proposed by the EUCO President. **The CPMR has advocated for an intensification of work on reinforcing the own resources component.**

→ The CPMR keeps its stance on those elements established by the Finnish Presidency proposal and that have not been changed in the EUCO President proposal (Component 5, ERDF Thematic concentration, decrease on the CEF allocation, etc...) Please see our Finnish Presidency analysis for more details.

1. Cohesion Policy: which Member States lose out compared to 2014-2020?

A quick glance at the overall figure under the 'Investments for jobs and growth' in the revised negotiating box leaked last Friday suggests a small increase for the overall Cohesion Policy compared to the Finnish presidency proposal of EUR 2bn *(see 2.1 below).* A closer look reveals a very different story.

A EUR 44 billion cut compared to the 2014 – 2020 period…

The meaningful figure to look at is the scale of the reduction compared to the 2014 – 2020 period, which is estimated at 12% (EUR 44 billion), according to a European Parliament analysis. This cut would apply despite the UK leaving the European Union.

… and wealthier regions lose out drastically

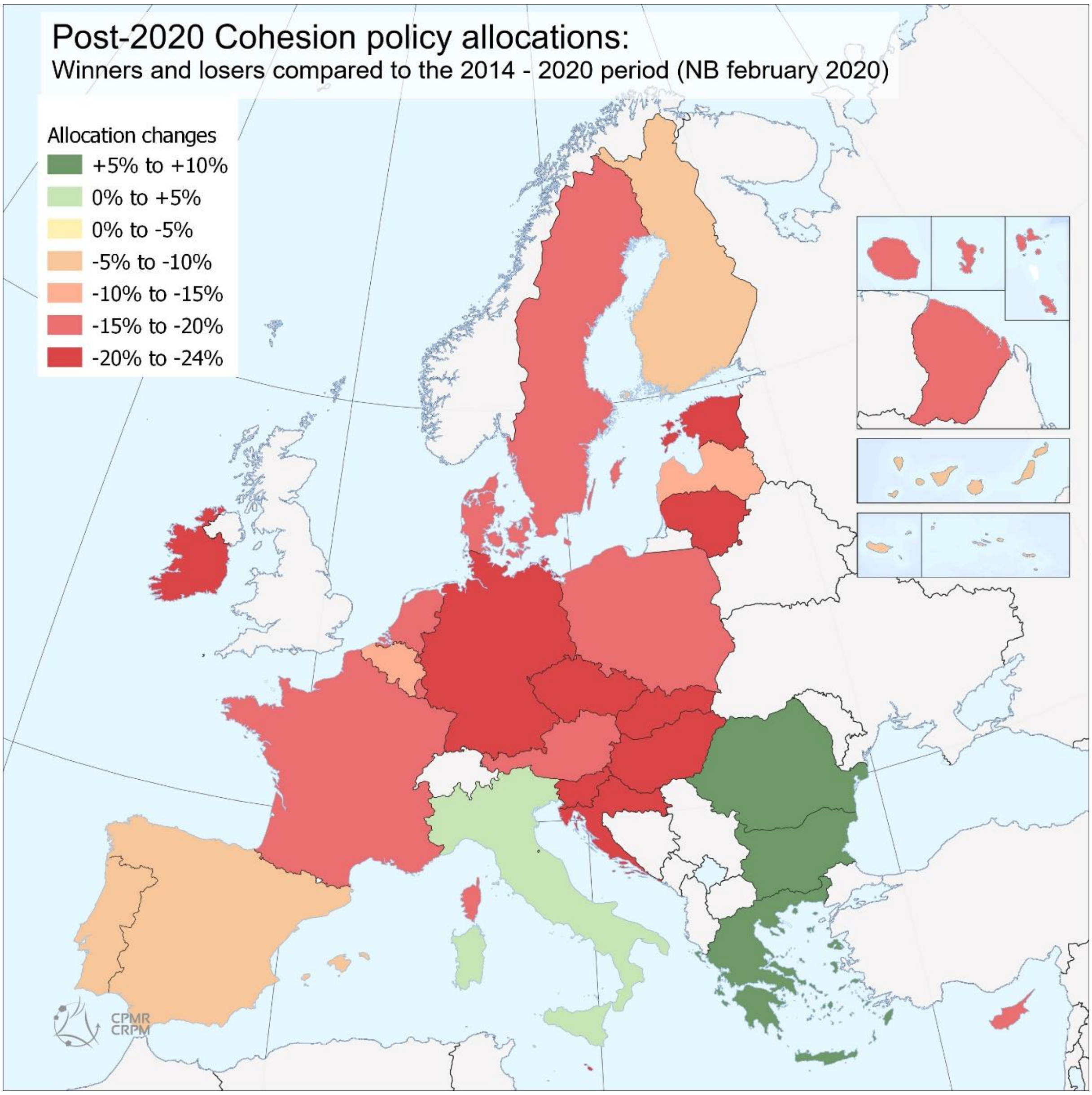
Although the overall Cohesion Policy budget is relatively preserved compared to the EC proposal issued in May, the changes suggested in the revised negotiating box prepared by Charles Michel's team will lead to significant changes:

- **at Member State level:** some countries will be affected by the introduction of new (or reinforced) capping provisions *(see below).*

- **at regional level:** regions within the more developed regions category will be particularly impacted by Charles Michel's proposal, for instance.

Let's take a look at how such a 12% cut is applied at Member State level. The map below compares (in % terms) the 2014 – 2020 Cohesion policy allocations at Member State level with the 2021 – 2027 Member States allocations as per the Feb EUCO proposal, based on the in-house CPMR statistical model (in 2018 prices).

Ranges have been provided to account for the margin for error within the CPMR statistical model.



Map 1: Comparison of Member States allocations: 2014-2020 period vs 2021-2027 (according to Feb EUCO proposal) in 2018 prices

1.1 Takeaways and recommendations

Overall impressions:

Unlike the December Finnish Presidency proposal which followed no apparent logic guiding the different cuts introduced back then, Charles Michel's proposal seems to have been crafted with the following objectives:

- **Constrain the Cohesion policy budget to a smaller level than 2014 – 2020.** The new proposal would lead to a cut of EUR 44bn compared to the current period which is significant
- **Make savings by reducing the overall envelope for more developed regions.** The proposal suggests an unprecedented 20% cut (EUR 7bn) to regions eligible under the more developed

regions category, compared to the May 2018 Commission proposal. ***Such a drastic move will hurt regions in Member States considered as the 'frugal four' (DK, AT, NL, SE) in particular***

- **Get a deal.** The addition of new provisions to compensate individual Member States (see below) and the fact that EUR 6bn have been set aside 'for future "gifts" to be granted to individual Member States in the final stages of the negotiations' under Heading 2[2] are an indication of the intention of the Council President to reach a deal on 20 February, at the costs of adding new exceptions and gifts to individual Member States

Compared to the 2014 – 2020 allocations for Cohesion policy:

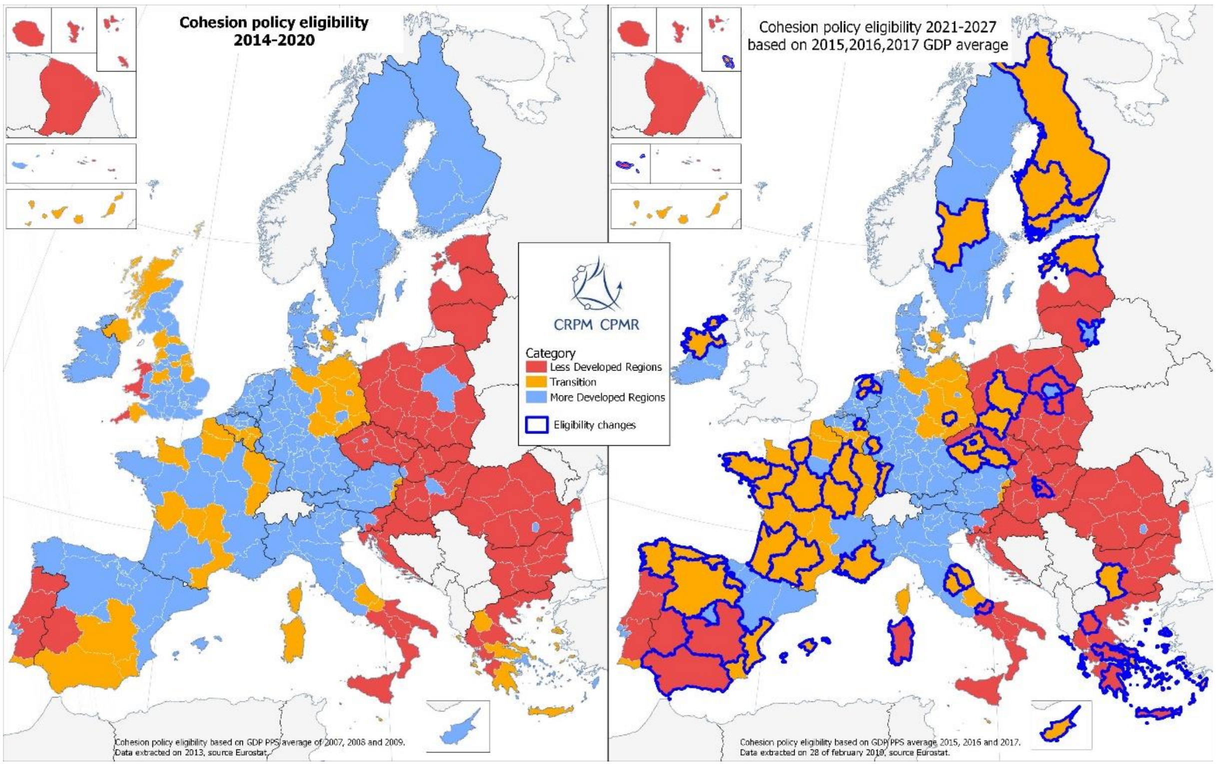
- All Member States would suffer a reduction in terms of their respective Cohesion policy envelopes (except IT, EL, RO, BG)
- Nine countries would suffer a reduction in excess of 20%
- The allocations for EL would still benefit from a small increase owing to many NUTS 2 regions dropping down from the transition category of region to the less developed regions status for the 2021 – 2027 period in both countries (see map 2 on regional eligibility below)

Compared to the European Commission proposal in May

- Charles Michel's proposal is particularly impactful for Member States with a high Gross National Income (GNI): LU, NL, AT, BE, DK would be impacted by new provisions limiting their overall envelope to as little as 80% of their 2014 – 2020 envelope. Finland would be negatively impacted too, but to a lesser degree
- The allocation for IT would not change drastically overall: its more developed regions would lose out, but its less developed regions would gain
- The envelopes for BG, EL, RO and SK would remain unchanged (compared to the EC proposal issued in May 2018) due to the existence of capping mechanisms preventing Member State allocations to exceed 108% of their 2014 – 2020 envelopes
- The 'winners' of this revised proposal are Member States with a high proportion of less developed and transition regions: CZ, DE, EE, IE, ES, CY, MT, PT, SI

As a final consideration on the distribution of funding at national/regional level, **only four Member States (ES, FR, PT, SE) are not subject to safety net or capping provisions at Member State level** as part of the allocation methodology under Cohesion Policy.

[2] According to the European Parliament's own analysis



Map 2: Comparison of Member States allocations: 2014-2020 period vs 2021-2027 (according to Feb EUCO proposal) in 2018 prices

2. Financial allocations

2.1 Overall size of the EU budget

→ The Negotiating Box with figures presents an overall level of **EUR 1.094 billion** for the period 2021-2027, representing **1.074% of EU GNI**.

	EC proposal	Finnish Presidency Negotiation-Box (Dec'19)	EUCO President Negotiation -box (Feb'20)
Overall budget size (in EUR billion)	1.134,6	1.087	1.094
% EU GNI	1.11%	1.07%	1.074%

2.2 Budget allocation per Headings

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

COHESION POLICY

	EC proposal	FI PRES Negotiation-Box (Dec'19)	EUCO PRES Negotiation-Box (Feb'20)	Change (EUCO Pres vs EC proposal)
Investment for Jobs and Growth	322 194	313 000	315 300	- 6 894 (-2.14%)
– Less developed regions	*198 621*	*195 600*	*200 000*	+ 1 379 (0.69%)
– Transition regions	*45 934*	*42 200*	*44 900*	-1 034 (-2.25%)
– More developed regions	*34 842*	34 200	*27 800*	-7 042 (-20.21%)
Territorial Cooperation	8 430	7 930	7930	-500 (-5.9%)
– Cross-border	*4 440*	*5 683*	*5 693*	
– Transnational	*2 649*	*1 474*	*1 466*	
Sub-total	*(7 089)*	*(7 157)*	*(7159)*	+ 70 (+1%)
– Interregional	*100*	*500*	*500*	+ 400 (+400%)
– Outermost regions	*270*	*273*	*271*	+ 1 (+0.37%)
– Interregional Innovation	*970*	*970*	*970*	-970 (-100%)
- Under ERDF		*500*	*500*	(under ERDF)
- Under ETC		*470*	*470*	(mainstreamed)
Additional funding for NSPAs and outermost regions	1 447	1 400	1 400	-47 (-3.25%)
Cohesion Fund	41 348	39 700	40 700	-648 (-1.57%)
European Social Fund[3]	88 646	86 300	85 600	-3046 (-3.44%)
– Specific for outermost regions and northern sparsely populated regions[4]	*377*	*370*	*250*	-127 (-33.69%)
– Transnational cooperation	*N/A*	*175*	*175*	+ 175 (+175%)

TRANSPORT

	EC proposal	FI PRES Negotiation-Box (Dec'19)	EUCO PRES Negotiation-Box (Feb'20)	Change (EUCO Pres vs EC proposal)
Connecting Europe Facility	37 488	30 896	29 896	-7 592 (-20.25%)
Transport	27 151 incl. 10 000 from CF incl. military mobility: 5 767	23 884 incl. 10 000 from CF incl. military mobility: 2500	22 884 including 10000 from CF incl. military mobility: 1500	-4 267 (15.7%)
Energy	7 675	5 180	5 180	-3470

[3] Allocation of the ESF+ under the Investment for Jobs and Growth goal.
[4] 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.

				(-33%)
Digital	2 662	1 832	1 832	-1168 (-31%)

NATURAL RESOURCES AND ENVIRONMENT

	EC proposal	FI PRES Negotiation-Box (Dec'19)	EUCO PRES Negotiation-Box (Feb'20)	Change (EUCO Pres vs EC proposal)
Heading 3: natural resources and environment	336 623	346 582	354 082	+ 17459 (5.19%)
European Agriculture for Rural Development	70 037	80 037	72 537	+2500 (3.57%)
Just Transition Fund	N/A	N/A	7 500	

MIGRATION AND BORDER MANAGEMENT

	EC proposal	FI PRES Negotiation-Box (Dec'19)	EUCO PRES Negotiation-Box (Feb'20)	Change (EUCO Pres vs EC proposal)
Heading 4: Migration and border management	30 829	23 389	21 890	-8 939 (-29%)
Asylum and Migration Fund	9 205	9 205	8705	-500 (-5.4%)

EUROPE AND THE WORLD

	EC proposal	FI PRES Negotiation-Box (Dec'19)	EUCO PRES Negotiation-Box (Feb'20)	Change (EUCO Pres vs EC proposal)
Heading 6: Europe and the World Heading	108 929	103 217	101 905	-7 024 (-6.45%)
Neighbourhood, Development and International Cooperation Instrument	79 216	75 492	75 492	-3 724 (-4.7%)

FLEXIBILITY: THEMATIC SPECIAL INSTRUMENTS

	EC proposal	FI PRES Negotiation-Box (Dec'19)	EUCO PRES Negotiation-Box (Feb'20)	Change (EUCO Pres vs EC proposal)
The European Globalisation Adjustment Fund	200	186	186	-14 (-7%)
Solidarity and Emergency Aid Reserve (SEAR)	1 200	920	1 200	0

3. Key policy elements within the negotiating box

Politically sensitive issues linked to EU spending programs are also addressed at the Council MFF Negotiation Box and their agreement will be part of the MFF final agreement.

3.1 Horizontal issues

WHAT'S NEW!

- **Up to 10% 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 Finnish proposal considered a 5% figure.*
- On the Cohesion policy eligibility, no reference to the need to address the effects of the **statistical update** compared to the Commission proposal (see CPMR Technical Note published in October for more information)
- Revision of the regime of conditionality to tackle deficiencies as regards the **rule of law** in Member State authorities making possible sanctions more difficult to be approved at Council level → *The EUCO President proposal establishes qualified majority voting at Council level versus the reversed majority established by the European Commission and kept by the Finnish proposal.*

Already present in the Finnish Presidency version of the Negotiation-Box

- The **target of EU expenditure contributing to climate objectives should be at least 25%.**
- **No mid-term review** for the MFF
- 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.
- The **role of the European Semester** to strengthening and facilitating the implementation via the EU budget the European Pillar of Social Rights as well as in the areas of migration, environment and climate change and gender equality
- On **third country participation**, the Union programs should be open to EEA countries, acceding countries, candidate countries and potential candidates and ENP partners in line with an agreement laying down the conditions applicable to the participation of the third country concerned in any programme.

3.2 Heading 1: Single Market, Innovation and Digital

WHAT'S NEW!

- Establishment of the **allocation for the InvestEU Fund** (EUR 11.300 million) and reference to the **Just Transition Scheme** that will be established under InvestEU as the second pillar of the Just Transition Mechanism.

Already present in the Finnish Presidency version of the Negotiation-Box

- 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
- Reference to the need to duly consider the disadvantages resulting from permanent geographic vulnerabilities.

- 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.

3.3 Heading 2: Cohesion and values

WHAT'S NEW!

- **Co-financing rate for categories of region** no higher than: 75% for the less developed regions; 65 for transition regions that in the 2014-2020 programming period were classified as less developed regions; 55% for the transition regions, 40% for the more developed regions. The co-financing rates for outermost regions and for the Cohesion Fund will not be higher than 75% and 70% for Interreg programs.
  → *Co-financing rates have been increased for the less developed regions, outermost regions and for the Cohesion Fund (up from 70%) and for transition regions that in the 2014-2020 programming period were classified as less developed region (up from 60%).*
- On **ERDF thematic concentration**:
  - Thematic concentration for less developed regions on PO1 "Smart Europe" established at 30%. → *Decrease from 35% under the Finnish proposal.*
  - **Cohesion Fund allocations to count for thematic concentration**. If the share of the Cohesion Fund resources allocated to the green objective is higher than 50%, then the allocation above 50% may be counted towards achieving the minimum ERDF shares.
- On the new instruments related to the Economic and Monetary Union:
  - EUR 12.903 million will be allocated to the euro area **Budgetary Instrument for Convergence and Competitiveness**
  - Introduction of a **Convergence and Reform Instrument** - with an envelope of EUR 5.511 million - for Member States whose currency is not the euro, whose GNI per capita is below the average of the euro area and that have not informed the Commission of their intention to participate in the BICC.

Already present in the Finnish Presidency version of the Negotiation-Box

- **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** (rather than only national as per the Commission proposal).
  - When a Member State decides to establish the thematic concentration at regional level, the requirements established will apply for all regions of the Member State included in the same development category.
  - The Council introduces the thematic concentration requirements as a total percentage per "smart" (PO1) and "green" (PO2) objectives for more developed regions. A distinctive percentage for "smart" and "green" for the transition and less developed regions.
  - **Thematic concentration of 30% of the European Regional Development Fund (ERDF) on the 'transition to a green, low-carbon Europe' - objective (PO2)**, with 30% earmarking as well for the more developed regions
- **Split of the Interregional Investments Component (Component 5) budget** (EUR 970 million) across**:**
  - The ERDF budget line: **EUR 500 million dedicated to interregional innovation investments under ERDF**.
  - **The ETC budget line:** EUR 470 million of the Funds allocated to Component 5 on the Commission proposal (EUR 970 million) remain under ETC while allocated to the other ETC components.

- On the **allocation methodology for ETC,** cross-border cooperation allocation will be based on the total population of which at least half of the regional population lives within 25 kilometers of the border and the population living within 25 kilometers of the borders. Transnational component is only calculated based on Member states population and the Outermost regions component is the same.
- Reinforced link between Cohesion Policy and respect of fiscal rules at EU level (**macroeconomic conditionality**) via the European Semester framework.
- Establishment of a **pre-financing rate of 0.5% for all the years**.
- The **Technical Support Instrument – with a financial envelope of EUR 767 million -** will improve Member States' administrative capacity to design, develop and implement reforms.

3.4 Heading 3: Natural resources and environment

WHAT'S NEW!

- **Introduction of the Just Transition Mechanism** to the MFF negotiation-box after the presentation of the JTF legislative proposal in January.
- **EUR 7.5 billion allocated to the Just Transition Fund** that will be distributed in line with the Commission proposal.
- **Conditionality on the Just Transition Fund:** Member States that have not yet committed to climate neutrality by 2050, access to the JTF will be limited to 50% of their national allocation, the other 50% being available upon the acceptance of such a commitment.
- Financing under this heading also supports the **European Maritime and Fisheries Fund**. No determined allocation has been established in the MFF Negotiation-Box. Reference to the EMFF contribution to the Common Fisheries Policy and the EU international commitments on ocean governance but no reference to blue growth.

Already present in the Finnish Presidency version of the Negotiation-Box

- The **target of EU expenditure contributing to climate objectives should be at least 25%.**
- **Climate action target under CAP**: the share of the CAP expenditure that is expected to be dedicated to climate action shall be 40%.

3.5 On Revenues

WHAT'S NEW!

- In relation to **traditional own resources**, Member States will retain the 12.5% of the amounts collected by them by way of collection costs.
- **Current VAT-based own resource to be replaced** by the refined alternative method of the Commission from January 2019.
- **Introduction of a basket of new own resources**:
  - National contribution based on the **weight of non-recycled plastic packaging waste** with a call rate of 0.80 euros per kilogram with a mechanism to avoid excessively regressive impact on national contributions.
  - Revenues generated by the **European Union Emission Trading Scheme** exceeding the average annual revenue per Member State generated over the period 2016-18.
  - Openness that **new own resources might be introduced** during the period 2021-2027 such as digital, aviation levy, carbon border adjustment mechanism or a financial transaction tax.
- Member States GNI contributions method of applying will remain unchanged.
  - **Budget correction mechanisms** to be applied for: Denmark, Germany, the Netherlands, Austria, and Sweden.

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The Conference of Peripheral Maritime Regions (CPMR) brings together some 160 Regions from 25 States from the European Union and beyond.

Representing about 200 million people, the CPMR campaigns in favour of a more balanced development of the European territory.

It operates both as a think tank and as a lobby group for Regions. It focuses mainly on social, economic and territorial cohesion, maritime policies and accessibility.

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