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Analysis

December 2019

Analysis of the MFF Negotiating Box

The Finnish Presidency intends to present a **new version of the MFF Negotiation-Box** to the General Affairs Council on 10 December 2019, ahead of the European Council (12-13th December) when Heads of State and Government will discuss the document and give political guidance to continue the MFF negotiations.

The presented Negotiation-Box represents a turning point as financial amounts for each of the EU budget lines for the 2021-2027 period have been included to be discussed between the EU27 Member States. The spending structure agreed will pave the way for EU policies implementation in the years to come, including CPMR core areas of interest.

The CPMR General Secretariat got its hands the revised version of the MFF negotiation box and would like to share its content with a summary of its main points and the CPMR General Secretariat first impressions.

INITIAL REACTIONS

After having a look to the revised version of the Council negotiation box on the MFF, those would be the CPMR General Secretariat first messages and concerns on the CPMR policies of interest:

→ **The CPMR regrets the Finnish proposal to reduce the EU budget to the 1.07% of the EU GNI,** a figure 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 is particularly concerned about that the proposed reduction to the Connecting Europe Facility (CEF). Reducing the CEF Transport pillar by 18%** makes it impossible for the CEF to fulfil its missions and achieve the TEN-T in due time, which is crucial to "achieve smart, sustainable and inclusive growth and stimulate job creation, (…) connect and integrate the Union and all its regions" as stated in the Negotiation Box. The proposed reduction would also lead to an overall lower budget for the CEF compared to the 2014 – 2020 period.

→ **The CPMR also regrets that financial resources for the "Investment for jobs and growth" goal as part of Cohesion Policy is also being reduced (-2.8% overall)** and urges the need to protect the policy as one of the main pillars of the European project. The CPMR is concerned that the Transition regions allocation would suffer a cut of 6.33%.

→ **ETC Component 5 "Interregional innovation investments" could be at risk** as the proposed system may lead to an overall reduction of resources attributed to the Component from €970 million) as per the Commission proposal) to €500 million. The CPMR strongly supports Component 5 and believes it should be adequately resourced.

→ **The flexibility to allow Member States to decide to which level the thematic concentration will apply (national or regional) could generate a discriminatory approach between EU regions**. Thematic concentration thresholds between regions from the same category but in different Member States could be different.

→ The CPMR has long called for the **deletion of the link between Cohesion Policy and sound economic governance** and effectiveness

→ No financial allocation is established in the document for the Just Transition Mechanism. The CPMR would like to reiterate its **call for fresh funding to be made available for the Just Transition Fund.**

1. FINANCIAL ALLOCATIONS

1.1 Overall size of the EU budget

→ The Negotiating Box with figures presents an overall level of **€1.087 billion** for the period 2021-2027, representing **1.07% of EU GNI**.

According to the Presidency the presented MFF Negotiation-Box tries to accommodate the divergence of views from Member States on the overall size of the EU budget and to respond to new priorities and challenges as well as safeguards funding for the 'modernized' Common Agricultural Policy and 'future' oriented Cohesion Policy.

1.2 Budget allocation per Headings

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

COHESION POLICY

	EC proposal	MFF negotiating box	Change
Investment for Jobs and Growth	322 194	313 000	-9 194 (-2.8%)
- Less developed regions	*198 621*	*194 600*	-4 021 (-2 %)
- Transition regions	*45 934*	*43 200*	-2 734 (-6.3%)
- More developed regions	*34 842*	*34 200*	-642 (-1.8%)
Territorial Cooperation	8 430	7 930	-500 (-5.9%)
- Cross-border	*4 440*	*5 683*	
- Transnational	*2 649*	*1 474*	
Sub-total	*(7 089)*	*(7 157)*	+68 (+1%)
- Interregional	*100*	*500*	+400 (+400%)
- Outermost regions	*270*	*273*	+3 (+1.11%)
- Interregional Innovation	*970*	*970*	-970 (-100%)
○ Under ERDF		*500*	(under ERDF)
○ Under ETC		*470*	(mainstreamed)
Additional funding for NSPAs and outermost regions	1 447	1 400	-47 (-3.25%)
Cohesion Fund	41 348	39 700	-1 648 (-4%)
European Social Fund	88 646	86 300	-2 346 (-2.6%)
- Specific for outermost regions	*377*	*370*	-7 (-1.8%)
- Transnational cooperation	*N/A*	*175*	

TRANSPORT

Connecting Europe Facility	37. 488	30 860	-6 628 (-18%)
Transport	27 151 - incl. 10 000 from CF - incl. military mobility 5 767	23 848 - incl. 10 000 from CF - incl. military mobility 2 500	-3 303 (-12%) - Incl. military mobility -3 267
Energy	7 675	5 180	-3 470 (-33%)
Digital	2 662	1 832	-1 168 (-31%)

NATURAL RESOURCES AND ENVIRONMENT

Heading 3: natural resources and environment	336 623	346 582	9959 (2.96%)
European Agriculture for Rural Development	70 037	80 037	10 000 (14.28%)

MIGRATION AND BORDER MANAGEMENT

Heading 4: Migration and border management	30 829	23 389	-7 440 (-24.1%)
Asylum and Migration Fund	9 205	9 205	=

EUROPE AND THE WORLD

Heading 6: Europe and the World Heading	108 929	103 217	-5 712 (-5.24%)
Neighbourhood, Development and International Cooperation Instrument	79.216	75 492	-3 724 (-4.7%)

FLEXIBILITY: THEMATIC SPECIAL INSTRUMENTS

The European Globalisation Adjustment Fund	200	186	-14 (-7%)
Solidarity and Emergency Aid Reserve (SEAR) **The SEAR replaces the European Union Solidarity Fund and the Emergency Aid Reserve in the Commission proposal*	1 200*	920	-280 (-23%)

2. OTHER ELEMENTS

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

2.1 Horizontal issues

2.1.1 'Unbracketed' provisions

The following points are 'unbracketed' in the negotiating box. This suggests that there is a consensus across EU Member States on the provisions mentioned below.

WHAT'S NEW!

– Establishment of a general regime of conditionality to tackle deficiencies as regards of the **rule of law** in Member State authorities
– On the **third country participation**, the Union programmes 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.
– 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

Already present in the June 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.
– Up to 5% of the respective 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

2.1.2 'Bracketed' provisions

The following points are 'bracketed' which suggests that further discussion will be required for Member States to reach an agreement on the following provisions.

WHAT'S NEW!

- A reference is made to the **creation of the Just Transition 'Mechanism'** (not a 'Fund' anymore) to address social and economic consequences of ambitious climate change policies. (bracketed, meaning that further financial details have still to be negotiated)
- On the cohesion policy eligibility, mention to the need to address effects of the **statistical update** compared to the Commission proposal (see CPMR Technical Note published in October for more information)
- Mention that the current **corrections system on the Member States national contributions** (rebates) expires by the end of 2020 and potential reductions could be taken for the period 2021-2027.

2.2 Heading 1: Single Market, Innovation and Digital

WHAT'S NEW!

- **Major cut to the CEF budget** *(see table above).* Each component of CEF (Transport, Energy and Digital) is cut to bring the budget down in line with the 2014-2020 period.
- In relation to the CEF a sentence states that ***"all Member States should be treated equally, disadvantages resulting from permanent geographic vulnerabilities should be duly taken into account"*** has been included. As the sentence refers to Member States with permanent geographic vulnerabilities, not to regions as identified in the TFUE Article 174, the wording does not match with any article of the Treaty. It is therefore challenging to establish its impact on the implementation of the Programme.

Already present in the June 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

2.3 Heading 2: Cohesion and values

WHAT'S NEW!

- The decision of **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.

- **Significant changes regarding the funding for Component 5**
  - Proposal to **split the Interregional Investments Component (Component 5) budget (€ 970 million) across:**
  - The ERDF budget line: **Component 5 will be only financed by € 500 million an amount dedicated to interregional innovation investments under ERDF**. *(It implies that the Council is already considering that Component 5 will be transferred under ERDF)*
  - **The ETC budget line:** € 470 million of the Funds allocated to Component 5 on the Commission proposal (€ 970 million) will remain under ETC in order to accommodate to the updated architecture of ETC programmes *(reintroduction of interregional programmes as Interreg Europe, URBACT, INTERACT)*. **It is unclear as to how this would be done in practice and whether the € 470 million would also be supported by the ERDF.**

- 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.

- Specific allocation of the **ESF+ resources** for the Investment for jobs and growth goal will be **allocated for transnational cooperation** supporting innovative solutions under direct or indirect management (EUR [175] million)

- On the **pre-financing and co-financing rates**:
    - establishment of a **pre-financing rate of 0.5% for all the years**
    - **co-financing rate for categories of region** no higher than: 70% for the less developed regions; 60% 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 rate for the Cohesion Fund and for Interreg programmes will not be higher than [70]%. *(bracketed, to be discussed)*

- **Inclusion of the new instruments for the euro area and the implementation of structural reforms** under the Heading 2 "Cohesion and values".
    - A new **Budgetary Instrument for Convergence and Competitiveness** with a financial allocation of € 13 million to the instrument.
    - The **Technical Support Instrument** will improve Member States' administrative capacity to design, develop and implement reforms. It will be available for all Member States and have a financial envelope for the period 2021-2027 of EUR [767] million.

Already present in the June version of the Negotiation-Box

- Reinforced link between Cohesion Policy and respect of fiscal rules at EU level (**macroeconomic conditionality**) via the European Semester framework.
- **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).

2.4 Heading 3: Natural resources and environment

WHAT'S NEW!

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

Already present in the June version of the Negotiation-Box

- The **target of EU expenditure contributing to climate objectives should be at least 25%.**

2.5 On Revenues

WHAT'S NEW!

- **Limited list of New own-resources to**:
    - Option of **non-recycled plastic packaging waste**
    - **Emission Trading Scheme** *(bracketed)*
    - Introduction of **the possibility to introduce new possible own resources** during the period 2021-2027

Already present in the June version of the Negotiation-Box

- Still no decision on the threshold for the appropriations for payments (1,25% of Member States GNI?) and appropriations for commitments (1,31%?)
- **The current system for collecting traditional own resources remains unchanged**
- **VAT-based own resource** to be abolished or replaced by a new alternative method *(bracketed)*

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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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