



The future of the EU Budget: Issues at stake for the CPMR

SUMMARY

Discussions on the future of the European Union and its budget (known as the Multiannual Financial Framework – MFF) after 2020 took a new turn in June following the results of the EU Membership referendum in the UK.

This Paper analyses six key questions in relation to post-2020 EU Budget reform:

- **The focus of the post-2020 EU budget** and the question of whether traditional EU policies (Cohesion Policy, CAP) will be reduced to make way for funding for **new priorities** in a reduced budget context;
- Whether the EU budget will remain **an investment budget with a 'redistributive' function**, and the future of the 'shared management' principle;
- The extent to which the EU Budget will continue to **support infrastructure**, and whether this will be done via **financial instruments** in the future;
- The possibility of moving away from a EU budget financed primarily by Member States contributions to a genuine system of **'own resources'**;
- The implications of developing **a separate budget for the Eurozone Member States**;
- Whether the EU Budget should be **more flexible**, and to what extent.

1. Introduction

The future of the EU budget is faced with considerable hurdles:

- **In the short term**, the departure of the UK from the EU as early as 2019 could leave the EU budget with unpaid bills amounting to an expected €60bn for the current MFF (2014 - 2020);
- **In the long term**, the EU budget needs to address emerging criticism that it lacks flexibility and focuses primarily on 'older' priorities¹. 'Brexit' could also lead to a potential €10 billion budget shortfall per year for the post-2020 MFF¹.

The CPMR wishes to take an active part throughout discussions over the future of European Union budget, and will do so via the ongoing CPMR 'Future of the EU' project initiated at its 2016 General Assembly in Ponta Delgada (Azores, PT).

This paper builds on a [CPMR analysis on the mid-term review of the EU Budget](#) presented at the Haarlem Political Bureau in February 2016 and achieves two objectives:

- It provides **an analysis of the current debate on the future of the EU budget** with a particular focus on possible implications for peripheral maritime regions;
- It offers '**food for thought**' for the consideration of CPMR Members, with a view to elaborate detailed proposals later in 2017.

2. Factors influencing the future of the EU budget

To understand the current state of the debate on the future of the Multiannual Financial Framework (MFF), it is worth starting by presenting the current processes underway, future EU institutional milestones and other significant factors.

What is already out:

- **Mid-term review of the MFF.** A legislative proposal for a [mid-term review of the EU budget for 2014 – 2020](#) was published by the European Commission in September 2016 with two intentions:
 - Proposing a series of technical changes relating to the delivery of the EU budget for the remainder of the MFF;
 - Emphasizing the need for further simplification, effectiveness and increased use of financial instruments (and EFSI) with regards to post-2020 EU budget delivery.
- **Monti Report.** The latest report from the High Level group on Own Resources (HLGOR) – [the Monti report \(January 2017\)](#) - which sees the UK leaving the European Union as an opportunity to change radically the way the EU budget is financed. It proposes a transition away from the current system of national contributions to the EU budget and instead move towards a system of genuine own resources.
- **Efforts to create a budget for 'Eurozone' Member States**, which include a recent European Parliament declaration on [providing a budgetary capacity for the Eurozone](#) (see 2.5 below)

¹ According to a recent [Notre Europe report](#) on the impact of Brexit on the EU report

What is coming up:

- **'Brexit'**. The process of the UK leaving the European Union will have profound repercussions on the future of the EU and the post-2020 MFF, from settling the 'divorce bill'² to more long-lasting (and significant) structural impacts on the EU budget;
- **National elections**. Crucial elections in 2017 in the Netherlands (in March), France (in May) and Germany (in September) will have a bearing on the course of action of the EU, and its budget thereof;
- **European elections**. The timing of the European elections in May 2019 will also come into play, not only because parliamentary activity will inevitably slow down, but mostly because MEPs will want to align the EU budget cycle (7 years) with the length of the legislature of the European Parliament (5 years) for post-2020;
- **The legislative proposals on the post-2020 MFF**, which the Commission has a legal requirement to publish by the end of 2017, but may well be delayed into 2018 or later considering the two above mentioned events. There is also a possibility for the current MFF to be extended for a couple of years, but this is far from settled.

2. Key issues at stake

Instead of analysing each of the above milestones in detail, this section reviews six key aspects of the EU budget that are currently at stake and of significance to the CPMR and its regions.

2.1. Which priorities should the post-2020 EU budget support?

The first of these reform aspects regards **the core function of the European Budget and the European policies it should aim to support**.

The Treaty on the Functioning of the EU offers some partial but useful clues. It mentions the need for regional development and research development funds, but does not say anything about how these should be financed.

It mentions the need for a Common Agricultural Policy (CAP) at European level, but it falls short in terms of legal clarity as to whether the CAP should be supported at national or at European level.

Doing more with less

In addition to treaty obligations, the EU budget is now asked to support a rising number of priorities. These priorities have emerged because of recent crisis which call for concerted efforts at European level. They include, for instance: tackling the refugee and migration crisis, efforts to fight against terrorism, and the need to establish a common European defence policy.

Plans are already underway to ensure that these 'new' priorities get adequate funding support from the EU after 2020. By way of example, a €90 million pilot project will support defence research

² See Notre Europe report on this subject: <http://www.institutdelors.eu/media/brexitbudget-haasrubio-idi-jan17.pdf?pdf=ok>

activities until 2020, pre-empting a possible fully fledged EU research programme on defence for the post-2020 period to the tune of €3.5 billion³.

What it means for the CPMR

A key question is therefore **how will the European Union cope with dealing with an additional number of priorities.**

This issue is critical at a time of near certainty budget reduction in a post-Brexit world and when some of the EU's most established policies (in particular the Common Agricultural Policy and Cohesion Policy) are under attack for their perceived low efficiency. This was most apparent in the Commission proposal for a mid-term review of the EU Budget published in September 2016.

There is nothing in the EU Treaties preventing the Commission from drastically reducing the scope of common EU policies such as the Cohesion Policy in the post-2020 period.

A first (catastrophic) scenario could entail significant scaling down of the ambitions of the CAP and Cohesion Policy - with budget reductions to follow suit – to make way for budgetary capacity for new priorities. A Cohesion Policy focused on less developed regions in the post 2020 could spell the end of the policy by the end of the next programming period.

A second - and more realistic - option to lower the weight of EU policies under shared management in the EU budget is national co-financing. For Cohesion Policy, this could mean lowering the maximum co-financing rate for less developed regions from 85% to 60%. For the Common Agricultural Policy, the first pillar of the CAP (direct payments) could be subject to national co-financing, as suggested by the [CEPS](#). The European Agricultural Fund for Rural Development could also be merged with the European Regional Development Fund. **These options need to be carefully evaluated by the CPMR and its Regions.**

2.2. Will it still be an investment budget with a 'redistributive' function?

The CPMR has long defended key principles anchored in the EU Budget, particularly those relating to **solidarity and subsidiarity**. These two principles are translated in operational terms in parts of the EU budget under the term 'programmes under shared management', currently covering the five European Structural and Investment Funds of the Cohesion Policy.

At present, 80% of the EU budget is spent under '[shared management](#)', which means that the responsibility for distributing funding is shared between the EU, national governments and (for some Member States) regional authorities. 94% of the EU budget is spent on projects in the Member States⁴, with a large portion of these being investment projects.

... or will it focus more on EU-added value initiatives?

Some are asking for the EU budget to focus on 'European' added value initiatives and not finance projects which would otherwise have been financed by national governments. This view is shared by

³ See [European Parliament Briefing on Preparatory Action for Defence Research](#), October 2016

⁴ See [European Parliament dedicated factsheet](#)

influential German Finance Minister Wolfgang Schäuble who would rather use EU monies to help Member States implement the so-called country-specific recommendations and carry out structural reforms.

Others, such as Jean Arthuis MEP (European Parliament Budgets Committee Chair), finds little added value in Cohesion Policy financing projects in richer European regions, as he stated to CPMR Political Bureau Members in Haarlem in February 2016.

What it means for the CPMR

The reality is that deep divisions exist between Member States (and within the Commission) on whether (or how) the EU budget should be an investment budget in the future. There is hope reading through the Monti Report, which says the following about the EU Budget:

'The EU Budget serves to support Common EU policies and provide seed money for medium to long-term investments. It also has some redistributive functions between Member States.'

One option for the CPMR will be to demonstrate **that funds under shared management do add European added-value beyond the 'financial return'** that they provide to Member States.

Another way forward would be for the CPMR to call on the Commission to ask for an **overall strategy to guide investment, growth and jobs after 2020**, which would clarify the functions and roles of the various EU policies and instruments within the MFF.

2.3. Will the future EU budget still fund infrastructure projects?

In February 2015, the CPMR adopted a declaration warning the Commission against the risks associated with a lack of a long term European vision to deliver EU public policies, and asked for proper resources to be made available to support investment⁵. The declaration was targeted at the newly created European Fund for Strategic Investment (EFSI) adopted earlier that same year.

Two years on, such warning signs have become a reality:

- there are no plans to renew Europe's strategy for growth and jobs (Europe 2020)
- the EFSI has been extended (and 'increased') until the end of 2020, with plans for further extension after 2020
- the Commission introduced crafty mechanisms in its September 2016 mid-term review package making it easier for other EU policies and programmes to support the EFSI

This new reality point to a European approach to support investment less based on grants but more on financial instruments:

- This seems true already regarding **Transport Policy funding**. The EU Budget mid-term review proposes to transfer an additional €155 million from the Connecting Europe Facility (CEF) to the EFSI, and proposes to raise the share of financial instruments for the Connecting Europe Facility from 10% to 20% via a new 'CEF Blending Facility', which would combine CEF grants

⁵ See [February 2015 Declaration](#) on Juncker Plan adopted in Nantes

with EFSI loans and guarantees⁶. As a reminder, €2.2 billion had already diverted from the original CEF Transport budget to finance the Juncker Plan. Of this amount, the EU Budget mid-term review only proposes to reallocate €400 million to the CEF Transport budget to be spent on grants.

- Infrastructure financing used to be the ‘bread and butter’ of **Cohesion Policy**. Today’s Cohesion Policy still allocates €59 billion to transport and energy network infrastructure, but that is 21% less than what the policy supported for that theme in the 2007-2013 period. The post-2020 Cohesion Policy reform is likely to carry out with that trend. This was confirmed by Regional Policy Commissioner Corina Crețu who stated recently that Cohesion Policy will ‘invest with priority research and innovation, digital and [will] slow down with infrastructure’⁷.

What it means for the CPMR

There is no denying that the European Commission has done its utmost to boost the use of financial instruments in the current Juncker Commission: via the newly created EFSI (and to the detriment of existing EU programmes) and through common EU policies.

But there is now **widespread criticism on the limits of such an approach**: from the CPMR’s very own [study on the territorial dimension of Cohesion Policy financial instruments](#) to the [EIB evaluation of the EFSI](#) published last October, all pointing to a need for grants and in particular when it comes to supporting public goods.

For the CPMR, a suitable response may entail asking the Commission to review the efficiency of financial instruments under EU common policies, to determine where they add value and to clarify clear boundaries between policies such as Cohesion Policy vis à vis the EFSI and its successor.

2.4. Will the future EU budget still rely on Member States contributions?

There is extensive literature suggesting that the reliance of the EU Budget on national contributions is the most significant factor influencing the structure of the MFF and affecting the distribution of its resources.

“The budget is still seen by many as a budget to secure additional funding for national or regional objectives, rather than a budget to deliver the EU’s needs and objectives⁸.”

The ‘net budgetary retour’ logic could be a thing of the past if proposals emanating from the High Level Group on Own Resources (HLGOR)⁹ are adopted. The latest report from the HLGOR (otherwise known as the ‘Monti Report’) sees the Brexit as an opportunity to reform substantially the way the EU budget is financed

⁶ See Article 217 of [the Omnibus Regulation](#)

⁷ See [Euronews interview](#) with Commissioner Crețu (14 February 2017)

⁸ [‘The Multiannual Financial Framework post-2020: Balancing political ambition and realism’](#), Centre for European Policy Studies, November 2016

⁹ The High Level Group on Own Resources is a EU consultative committee that will propose new forms of revenue for the European Union’s budget and is presided by Mario Monti

Main ideas from the 'Monti report'

- **MFF should be 'reconfigured'** but volume should stay the same;
- **Introduction of new own resources¹⁰** alongside traditional own resources;
- Reform of EU budget should be guided by **key principles**, including EU added value, support to where the EU has competences, and subsidiarity (including 'subsidiarity tests' to determine whether expenditure elements should be at EU, national or subnational level);
- **Unity of the EU budget**, but room for a degree of differentiation to further develop the euro area or for policies under enhanced cooperation where there is a 'coalition of frontrunners' (such as defence);
- All **rebates** enjoyed by some Member States should be scrapped.

What it means for the CPMR

It is difficult to evaluate the impact of a EU budget based on new 'own resources' for peripheral maritime regions. The 'subsidiarity tests' seem an interesting idea but difficult to evaluate given the lack of details provided in the Monti report.

2.5. Will there be a separate budget for the Eurozone Member States?

The idea for a budget covering Member States with the euro as a currency came from a report from former President of the Council Herman Von Rompuy published in June 2012. The initial ambition of the '[Von Rompuy report](#)' to create an integrated budgetary framework for the Eurozone were scaled down in today's blueprint for the completion of the European Monetary Union, known as the Five Presidents report.

Some believe that a Eurozone budget is the only way forward to ensure that Eurozone Member States are protected from future shocks in the future. The European Parliament adopted [a declaration](#) on 16 February to this effect.

Proposals in the declaration call for reinforcing the capacity of the EU to deal with shocks to the euro, which would entail reinforcing the current European Stability Mechanism (the so-called 'firewall' set up in 2012 to provide financial assistance to Member States in financial difficulty) to make it a European Monetary Fund, and provide specific additional budgetary capacity for the euro area, funded by its members as a part of the EU budget.

¹⁰ Preferred options would be a reformed VAT-own resource, a EU corporate income tax, a financial transaction tax and other financial activities' tax

What it means for the CPMR

Options put forward by the European Parliament seem sound in light of the crisis affecting the Eurozone since 2009. But one of the obvious risks associated with the creation of a Eurozone budget is that of **fragmentation of the EU and its Members**. Immediate questions would be raised about the **financing of core EU policies** (Transport, Cohesion, Research policies and programmes).

These concerns are linked to recent calls for a 'two-speed Europe'. The most recent one comes from the Italian Government proposing [a 'core' of EU Member States](#) committed to further European integration, with other EU Countries free to move ahead on certain policies at their own pace. **This is very much linked to the future of Europe debate.**

2.6. Should the EU Budget be more flexible, and if so how?

Another crucial aspect of the debate on the future of the EU budget concerns its flexibility - or until recently, a perceived lack of it - to address crisis and new challenges.

Despite the EU Budget mobilising €12 billion over 2014 and 2015 to face events such as compensating farmers affected by the Russian ban or help those affected by the milk price crisis, experts (and the European Parliament) agree that the 'current flexibility mechanisms are not designed to meet the needs of persistent multiple crises'¹¹

The rigid structure of the European Commission budget means that there are only two solutions at its disposal to tackle unforeseen emergencies which fall outside the scope of EU policies and programmes:

- The first of these options is to **redeploy existing EU funding programmes**: this was the option initially chosen by the Commission to tackle the migrants and refugees crisis, which encouraged Member States to reprogramme EU Cohesion Policy funds to support emergency measures.
- The second option is to resort to the so-called '**Flexibility Instruments**'¹² of the MFF, which provide some options to deal with major disasters and emergencies.

The mid-term review of the EU budget proposal went some way towards addressing these issues by proposing a EU Crisis Reserve, although at this stage this is to be funded by unused money within the MFF.

¹¹ [Study on the potential and limitations of reforming the financing of the EU Budget, High Level Group on Own Resources, June 2016](#)

¹² These include the [Emergency Aid Reserve, the EU Solidarity Fund, the Flexibility Instrument and European Globalisation Adjustment Fund](#).

4. Next steps

The above-mentioned issues mean that EU budget reformers will have to make agonisingly difficult calls to provide the European Union with a modernised budget at the service of its citizens. With Brexit looming in the background, the only certainty is that the status quo is not an option and that changes to the structure of the MFF will have to be made and agreed upon for the sake of the survival of the EU.

The CPMR General Secretariat:

- Invites Members to consider options and scenarios envisaged in this note;
- Will continue to monitor developments on the future EU budget so that the CPMR can adopt a position on the future of the EU budget by the end of 2017.



Contact person: Nicolas Brookes, CPMR Director

Email: nicolas.brookes@cpmr.org

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.

www.cpmr.org

CONTACT:

6, rue Saint-Martin, 35700 Rennes
Tel: + 33 (0)2 99 35 40 50

Rond-Point Schuman 14, 1040 Brussels
Tel: +32 (0)2 612 17 00

Email: Secretariat@crpm.org; Website: www.cpmr.org

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