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TECHNICAL PAPER FROM THE CPMR GENERAL SECRETARIAT

THE MID-TERM REVIEW OF THE EU BUDGET: ISSUES AT STAKE FOR CPMR REGIONS

1. Introduction

Preparations are underway for a mid-term review of the European Union budget for 2014-2020 (the multiannual financial framework - MFF). This is a defining moment both in terms of the Juncker Commission and the future of the European project.

The mid-term review of the MFF is the product of a demand made by the European Parliament in 2013 as the EU budget for 2014-2020 was being negotiated. The European Parliament had asked for a 'post electoral revision clause' to provide an opportunity for the newly elected Members of the European Parliament and the new European Commission to reassess priorities of the EU, which was secured in the political agreement reached on 27 June 2013.

This paper explores why the MFF review is critical for the CPMR and its regions (section 2), what it is all about (section 3), what is driving the review (section 4), the position of the European Parliament (section 5) and recommends an approach for positioning the CPMR on this issue (section 6).

In a nutshell:

- The European Commission will present a proposal for a review of the MFF to '**reassess the priorities**' of the EU for the second half of the term of the EU Budget (2017 until 2020)
- There is **considerable uncertainty** with regards to when the proposal by the Commission will be published and what will be addressed in the review. The proposal from the Commission should be issued by the end of 2016, though much will depend on the outcome of the UK EU Membership referendum
- The MFF mid-term review will also be a **"test bed" for the post-2020 EU budget** (and common EU policies) and the future of European integration

2. Why is the MFF review important for the CPMR?

On the short term, it touches on EU policies which matter for CPMR regions, including EU Transport Policy, Cohesion Policy, Horizon 2020 but also potentially other issues such as the EU's approach to tackling the refugee crisis.

On the medium term, it is the start of the political process for post-2020 EU budget reform. Informal discussions with the Secretariat General¹ confirm that the mid-term review of the MFF will inevitably pre-empt longer term discussions on the size and shape of the European Union budget.

On the long term, it is about the future of the European Union and European integration. The European Parliament and the Council will no doubt seize the opportunity of the mid-term review process to put on the table a certain set of long term demands linked to the future of the EU. On the Council side, debates on what

¹ The CPMR Secretariat met with Jean-Eric Paquet, Deputy Secretary General of the Commission, and Christopher Becher, Deputy Head of Unit responsible for the MFF mid-term review dossier on 20.01 and 29.01 respectively

the 'ideal EU Budget' should have already been initiated by the Dutch EU Presidency². The European Parliament, on the other hand, has taken a proactive approach to pre-empt the publication of the mid-term review of the proposal (see section 5 below).

3. What is the scope of the review?

3.1. Legal basis

The purpose of the mid-term review of the MFF is to enable institutions "to reassess the priorities" of the European Union (Recital 2 of MFF regulation), taking account of the changes in the economic situation on the basis of the latest macroeconomic data.

In practice, the mid-term review of the MFF will consist in a package of proposals to modify existing EU legislation linked to parts of the EU Budget. The package will then need to be adopted by the European Parliament and Council.

The key question, unanswered at the time of writing, is whether the exercise will be a **mere technical revision of certain pieces of legislation or a fully-fledged review** of regulations supporting common EU policies such as the EU Cohesion Policy, which may incur significant changes such as co-financing rates for certain funding programmes.

3.2. "Fully justifiable technically, but the worst possible timing ever politically"

The timing of the publication of the mid-term review of the MFF is problematic for a number of reasons:

- *Link with the UK EU Membership referendum*

Chief among these issues is the planned referendum in the UK on its membership of the EU. The timing of the UK referendum hinges on negotiations between the UK Government and the Commission and other EU States. A referendum in June would appear likely if the UK Prime Minister feels that his four demands for EU reform³ are fulfilled.

- *The timing of the German and French general elections*

The timing of the German general elections in September, but also the French general election (April/May 2017) is another complicating factor for the publication of the review.

- *Interconnection with preparations for the post-2020 EU budget*

By the own admission of officials at the European Commission, it is impossible to dissociate the mid-term review of the MFF and preparations for the post-2020 EU Budget. The MFF regulation obliges the Commission to publish a proposal for the post-2020 EU Budget by 1 January 2018.

3.3. What the mid-term review cannot do

- *Reduce EU funding under shared-management*

Pre-allocated national envelopes cannot be reduced by the mid-term revision. This includes the cohesion policy (Heading 1b), Rural Development and the European Maritime and Fisheries Fund (Heading 2) as well as the programmes in shared management in Heading 3 (AMIF and ISF Funds)

- *Pre-empt the creation of a Eurozone budget*

The Commission proposal for a mid-term review of the MFF will not address directly long term proposals made in the Five Presidents report⁴, such as to create a budget for the Eurozone.

- *No connection with the review clause for structural funds allocations*

Structural Funds allocations for all Member States and regions will be reviewed to take into account the latest GDP statistics. This is a technical adjustment which will take into account changes in terms of regional eligibility and allocation based on the average of 2012, 2013 and 2014⁵. It is understood that the regional GDP

² Dutch Presidency of the EU conference on the MFF organised on 28 January

³ See letter addressed to President of the EU Council Donald Tusk on 10 November 2015

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/475679/Donald_Tusk_letter.pdf

⁴ The [Five Presidents Report](#) is a series of proposals published in June 2015 about the completion of the Economic and Monetary Union

⁵ See Article 92 of the CPR for more details: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1303&from=EN>

figures for 2014 will be published in March and the adjustment will be carried out by the Commission in May 2016.

4. What is likely to drive the MFF mid-term review?

A number of Commission initiatives will feed in to the mid-term review of the MFF, including the High Level Group on Simplification of ESI funds and the Budget focused on Results initiative. It is important to note that the delay in the start of the programming process for ESI funds will be unfavourable in terms of making a strong case for Cohesion Policy survival after 2020, as very little evidence will be available to show the impact of the funds since 1 January 2014.

Criticism has already been voiced at the highest level about the EU Budget, as the following quotes reveal:

“Recent crises and evolving priorities already pushed the MFF to its limits” Working Document of the European Parliament on the MFF mid-term review.

“Most of the [2014–2020 MFF] money is spent not to address current challenges, but rather is allocated on the basis of historical reasons” German Finance Minister Wolfgang Schäuble, EU budget Focused on Results conference, 22 September 2015⁶.

“The current financing of the EU-budget is, however, too complicated, and not transparent enough. [...] We finance the budget via different sources, we use different methods to calculate our contributions, and we revise our contributions afterwards up until four years looking back after closing the budget” Dutch Finance Minister Jeroen Dijsselbloem, Conference on the MFF, 28 January 2016⁷

The mid-term review of the MFF is therefore likely to be driven by the following issues:

- **Flexibility of the EU to respond to crisis**

The perceived lack of flexibility of the European Union (and its budget) to react to recent crisis will be a key, if not the main factor in terms of the MFF mid-term review. The EU budget has come under a lot of pressure for failing to respond appropriately to the refugee crisis in particular, despite the use of the so-called ‘Flexibility Instrument’ and measures to encourage Structural Funds managing authorities to refocus operational programmes towards tackling the refugee crisis⁸.

One of the immediate questions to be addressed in the review is therefore whether the Commission will propose to increase the financial resources of the EU Budget to cope with unforeseen crisis.

- **The fate of the European Fund for Strategic Investment (EFSI)**

On an immediate level, there will be pressure – from the European Parliament mainly – to compensate for the redeployment of funding from Horizon 2020 and the Connecting Europe Facility to establish the EFSI last year. Envelopes for both programmes were cut by €2.2 billion and €2.8 billion respectively, with the funding being transferred to the EFSI. On a more long term strategic level, the Commission will no doubt take the opportunity to recall the importance of financial instruments within the framework of the European Union budget.

It remains to be seen whether the Commission will take the opportunity to signal what might follow on from the Juncker Plan and the EFSI, which runs until December 2017.

- **The follow up of the Youth Employment initiative**

One of the innovations of the 2014 – 2020 period was the creation of the Youth Employment Initiative to stimulate job creation for young people. 6.4 billion euros (half of which from the European Social Fund) were allocated for the initiative for 2014 and 2015, and a progress report on the YEI is likely to be published in June 2016.

The mid-term review of the MFF may propose an extension of funding for the YEI for 2017–2020.

⁶ <http://www.bundesfinanzministerium.de/Content/EN/Reden/2015/2015-09-28-keynote-eu-budget-focused-on-results.html>

⁷ <https://www.rijksoverheid.nl/regering/inhoud/bewindspersonen/jeroen-dijsselbloem/documenten/toespraken/2016/01/28/multiannual-financial-framework>

⁸ http://ec.europa.eu/regional_policy/en/newsroom/news/2015/09/the-role-of-cohesion-policy-in-the-integration-of-migrants-and-refugees-statement-by-commissioner-corina-cretu

- **Resolving the payment crisis of the EU Budget**

The issue of the 'unpaid bills' from Member States towards the MFF is not a new issue⁹. There is a risk that a new payment crisis will emerge in the second half of the MFF when Cohesion policy programmes reach their natural peak of payments, which would result in a repeat of the situation for the 2007–2013 programming period where certain EU Funding programmes, such as ERASMUS, were at risk of being suspended.

5. Position of the European Parliament

Understandably so, the European Parliament is taking a proactive approach to the mid-term review of the MFF. Isabelle Thomas MEP (S&D Vice-President, France) and Jan Olbrycht MEP (EPP, Poland) have been appointed as co-rapporteurs to lead on this issue. Key demands include the following:

For the short term

- A fully fledged review, not a revision;
- A possible increase of the budget for the Connecting Europe Facility and Horizon 2020 headings to compensate for the transfer of funding from both programmes to the EFSI;
- Possible changes to the EU budget to allow the EU to deal with unforeseen events and external crisis, including possible changes to improve the flexibility of the EU budget;
- Addressing the long lasting payment crisis of the EU Budget.

For post-2020

- A discussion on the length of the term of the MFF. The Parliament could propose a 5 years term to align the term of the MFF with the term of the European Parliament;
- A discussion on own resources, based on input from the High Level Group on Own Resources (HLGOR) chaired by Mario Monti;
- A discussion to increase the performance of the EU Budget;
- A discussion on the unity of the EU budget, in light of proposals emanating from the Five Presidents Report to set up a separate budget for the Eurozone;
- A discussion on the use of financial instruments in the EU Budget;

A strategic report conveying these views is likely to be published in April 2016.

6. How should the CPMR position itself?

In addition to the issues mentioned in sections 4 and 5, the mid-term review of the MFF throws up long term strategic questions about the future of the European Union budget. These include:

- **How far reaching will the mid-term review exercise be with regards to legislation underpinning strategic European policies for the CPMR; for instance regarding strategic and investment funds (ESI) and the Connecting Europe Facility (CEF)? Will project allocation criteria and co-financing rates be subject to some degree of renegotiation?**
- **What type of flexibility do we need for the EU Budget?**

'Flexibility' is the name of the game when it comes to discussing the EU Budget among EU decision makers. But flexibility can be interpreted in different ways. *Could this flexibility mean the end of seven years operational programmes for ESI funds, for instance? What would happen to programmes under shared management?*

- **'Should perhaps a larger part of the [Cohesion] funding be centralised on EU level to ensure that money is spent according to (EU) priorities?'**

The above question was not invented by the CPMR General Secretariat, but is actually extracted from a speech by EU Budget Commissioner Kristalina Georgieva delivered on 28 January¹⁰. The question captures criticism voiced by opponents of Cohesion policy about the poor performance and the administrative

⁹ It is estimated that the Reste A Liquider (RAL), which refers to the outstanding commitments from Member States to the MFF, reached 222 billion euros for the 2007 – 2013 period

¹⁰ https://ec.europa.eu/commission/2014-2019/georgieva/announcements/speech-vice-president-kristalina-georgieva-eu-presidency-conference-multiannual-financial-framework_en

burden associated with programmes under shared management. *Could Cohesion Policy go 'back to the future' and feature elements centrally managed by the Commission, with calls for proposals, such as for Horizon 2020, or by Member States, on the model of Community initiatives implemented in the 2000-2006 period (EQUAL or URBAN II for instance) ?*

- **'What is the interplay between cohesion policy and the EFSI ("Juncker plan") if the latter was to be continued beyond 2020? We will also look at the functioning of financial instruments and their interplay with grants.'**

This is another extract from Commissioner Georgieva's speech delivered at the MFF Conference. The question confirms the Commission's desire to boost the use of financial instruments within the EU budget and the real risk that not all European regions would be eligible for grant support under Cohesion Policy after 2020.

These questions can be addressed by CPMR Members during the EU Budget working session of the Political Bureau meeting of the CPMR in Haarlem on 19 February

In light of this, the CPMR General Secretariat recommends that the CPMR develops an overall position on the MFF review exercise. Depending on the timing of the publication of the MFF review, a position could be adopted at the CPMR General Assembly in the Azores in November 2016.

The CPMR position paper could compile recommendations arising from ongoing CPMR studies and input from CPMR Geographical Commissions, working groups and events, including:

- Outcomes of the High Level Seminar 'Obstacles to investment and access to finance in Europe for the maritime economy' held on 18 February in Haarlem (NL);
- Forthcoming CPMR study on the territorial dimension of EU Financial Instruments;
- Meetings of the CPMR Task Force on Migration, CPMR Transport Working Group, CPMR Core Group in particular;
- Final Declarations of CPMR Geographical Commissions and conclusions drawn up in the frame of their thematic Working Groups or ETC cooperation projects.