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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL AND THE COUNCIL

A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020

The European Commission's contribution to the Informal Leaders' meeting on 23 February 2018

A BUDGET FOR OUR UNION AT 27

"*Budgets are not bookkeeping exercises – they are about priorities and ambition. So let's first discuss about the Europe we want*."

Jean-Claude Juncker
European Commission President
8 January 2018

1. A budget for a more united, stronger and more democratic Union

Every seven years, the Union decides about its future finances. This is a time for Leaders to commit financially to the kind of Union they want. This is always an important moment. But it is doubly vital at a time when Europe is in the midst of a fundamental debate on how the Union should evolve in the years to come. We now have an opportunity to choose the Europe we want and to decide on a budget that helps us build it.

The Informal Leaders' meeting on 23 February is therefore both timely and essential. The first step is to define what Europe wants to do together and agree on priorities. The second is to equip the Union with the means to act. The two are inseparable. The choices we make on priorities and where we want the Union to be active will shape the type of budget we need. The EU budget is a means to achieve our political goals.

The Commission's White Paper on the Future of Europe of 1 March 2017 set out a number of possible scenarios for Europe's future. The Reflection Paper on the Future of EU Finances of 28 June 2017 looked at what each of these scenarios could mean for the Union's budget. A Europe limited to the Single Market does not need large funding programmes. A Europe that chooses to do more together needs the resources to match this wider ambition. Whichever path we choose, one thing remains constant: the future Union of 27 must be equipped with a reliable and future-proof budget that allows it to deliver efficiently on its priorities.

The current Financial Framework was agreed against the backdrop of the worst economic and financial crisis for generations. Public finances in many Member States were under strain. Thanks to the concerted efforts of the Union and its Member States, today's context is different. As the economic recovery has gathered pace, the focus has shifted to our current and future challenges.

Leaders agreed on 16 September 2016 in Bratislava and on 25 March 2017 in the Rome Declaration on a positive agenda for the Europe of 27. Citizens now expect their Union to deliver on this. The next Multiannual Financial Framework is a decisive moment to match aspirations with the means to act.

The withdrawal of the United Kingdom from the Union will mean the loss of a significant contributor to the financing of the Union's policies and programmes. This will require us to take a critical look at where savings can be made and priorities delivered more efficiently. This is an essential part of the preparation of any budget proposal and the Commission is fully committed to modernising and streamlining wherever possible. However, a willingness to look with an open mind at the resources needed to turn new priorities into tangible results will also be required.

The Commission intends to present its proposals for the next Multiannual Financial Framework by early May 2018 at the latest, on the basis of intensive consultations with Member States, the European Parliament and the wider public. These proposals will be fair, balanced, and focused squarely on delivering efficiently. It will then be for the Member States and the European Parliament to decide – both on the future budget and, more fundamentally, on the type of Europe we want.

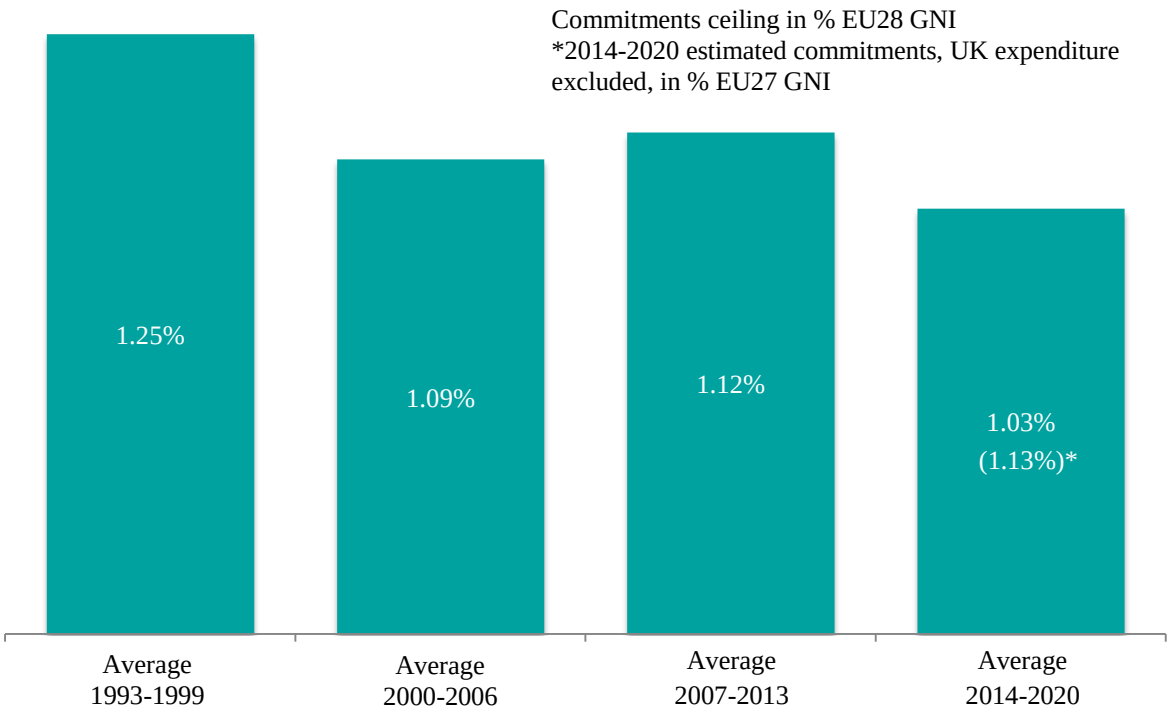
Agreement on a new Multiannual Financial Framework for the period 2021 to 2027 will be a key moment for EU Leaders to recommit to the positive agenda and to Europe itself. It will be an important test of the unity of our Union and our capacity to act in a changing world. Leaders now have a window of opportunity to choose a more united, stronger and more democratic Union – and a budget that delivers it.

2. The EU budget: a driver for European added value

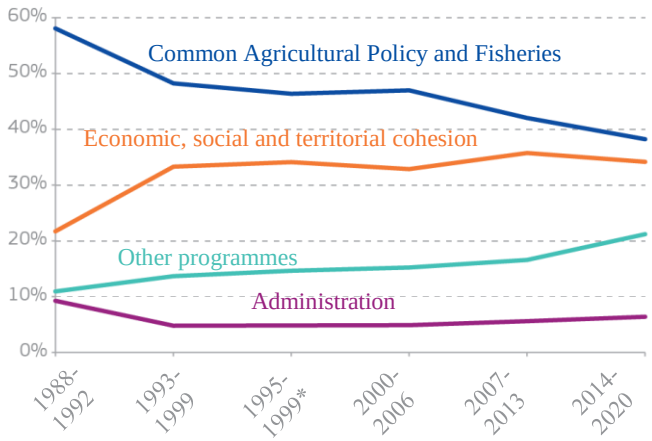
The EU budget is unique. Unlike national budgets which are used in large part to provide public services and fund social security systems, the EU budget is primarily an investment budget. The seven-year Multiannual Financial Framework provides a longer-term planning horizon and the stability needed for investment planning. The EU budget must always be in balance.

The EU budget helps the Union to implement common policies and address a wide range of challenges – both at home and elsewhere in the world. It represents a small part of total public expenditure in the Union, accounting for around 1% of the combined Gross National Income (GNI) of the 28 current Member States and only around 2% of public spending in the EU. This means that every citizen enjoys the huge benefits that the Union brings for less than the price of one cup of coffee per day.

The size of the EU budget as percentage of Gross National Income



Over time, the composition of the EU budget has evolved. The share of agriculture and cohesion spending has declined, though still represents around 70% of the total. Investment is increasingly focused on programmes directly managed at European level and in areas such as research and innovation, trans-European transport and energy networks, mobility programmes for young people and Europe's external action.



*Adjusted for 1995 enlargement

During the economic and financial crisis, national budgets in many Member States came under severe strain. In that time, the EU budget, and notably the European Structural and Investment Funds, emerged as a major source of stable growth-supporting investment. The European Fund for Strategic Investments has since played a major role in mobilising private investment throughout Europe. Most recently, the EU budget underpinned the European response to the refugee crisis and to the threat of organised crime and terrorism. This tested the budget's flexibility to the limit.

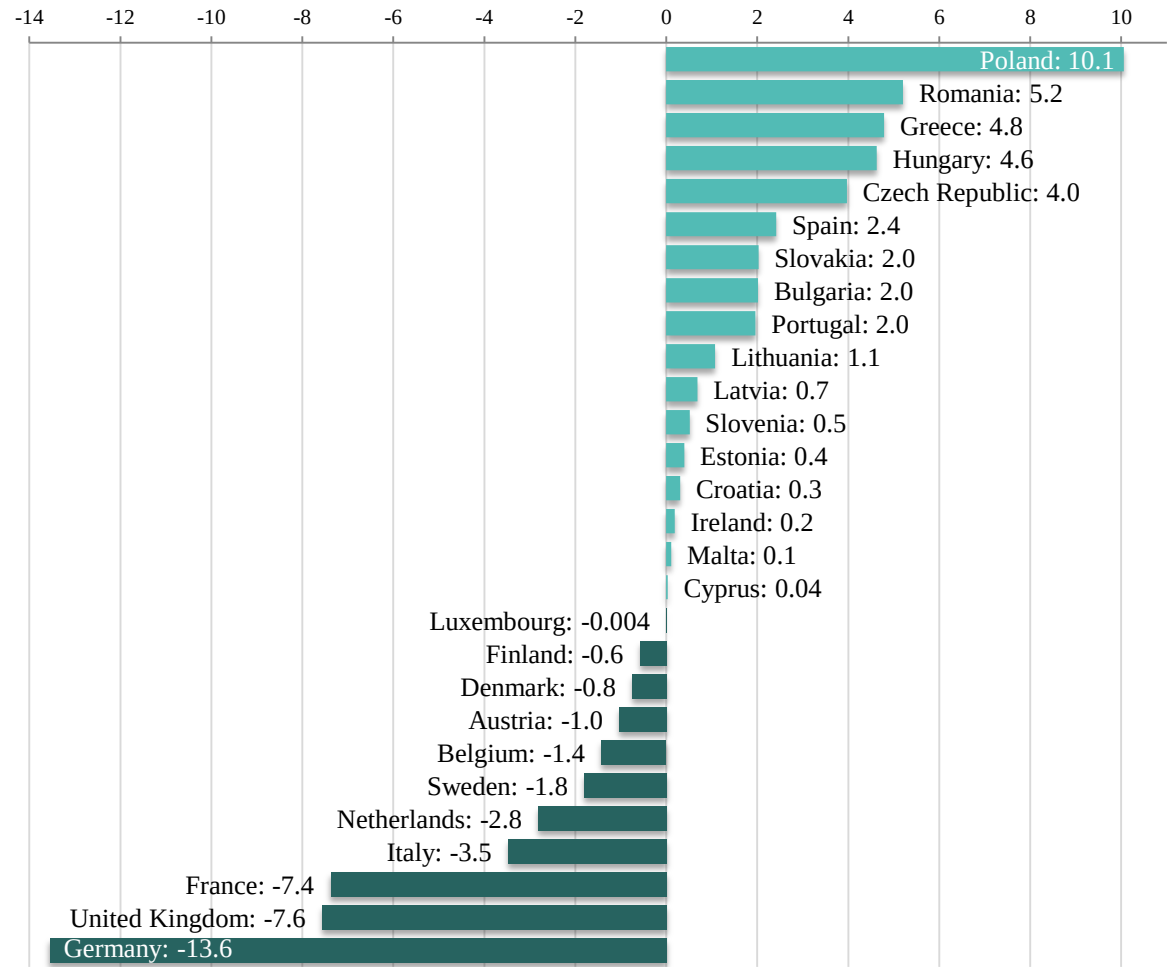
In all these areas, pooling resources at European level can deliver results that spending at national level cannot. This is the added value of the EU budget. A euro spent through the European budget must be worth more to our citizens than a euro spent at national level. In many areas, funding at national, regional or local level is the right approach. In others, the cross-border nature of challenges means that pan-European programmes are both more effective and more efficient. By focusing in the right areas, even a relatively modest EU budget can have a strong impact on the ground. And it can do so while allowing for savings to be made in national budgets.

The benefits of well-designed EU budget programmes are felt by all Europeans. Fostering economic convergence for the least developed regions through cohesion policy strengthens the Single Market and creates opportunities for companies, workers and consumers across the Union. Scientific breakthroughs from EU-funded research programmes improve the quality of life for all. Mobility programmes such as Erasmus+ equip young people with labour market skills, improve cultural understanding and strengthen the social fabric of our Union.

The common focus on 'net balances' in the EU budget debate is therefore misleading. Net balance calculations have fed the perception that EU budget negotiations are a zero-sum game between net contributors and net beneficiaries. This misses the essence of the EU budget. Expenditure allocated to one Member State in reality benefits many others by creating market opportunities or improving infrastructure. For example, it is estimated that a quarter of additional growth in non-cohesion countries is due to indirect benefits from increased sales to and trade with cohesion countries. This is thanks to the 2007-2013 cohesion programmes. These effects are amplified by the leverage effect of loans or other financial instruments guaranteed by the EU budget.

Europe in accounting terms

EU budget: average annual balance 2014-2016* (EUR billion)

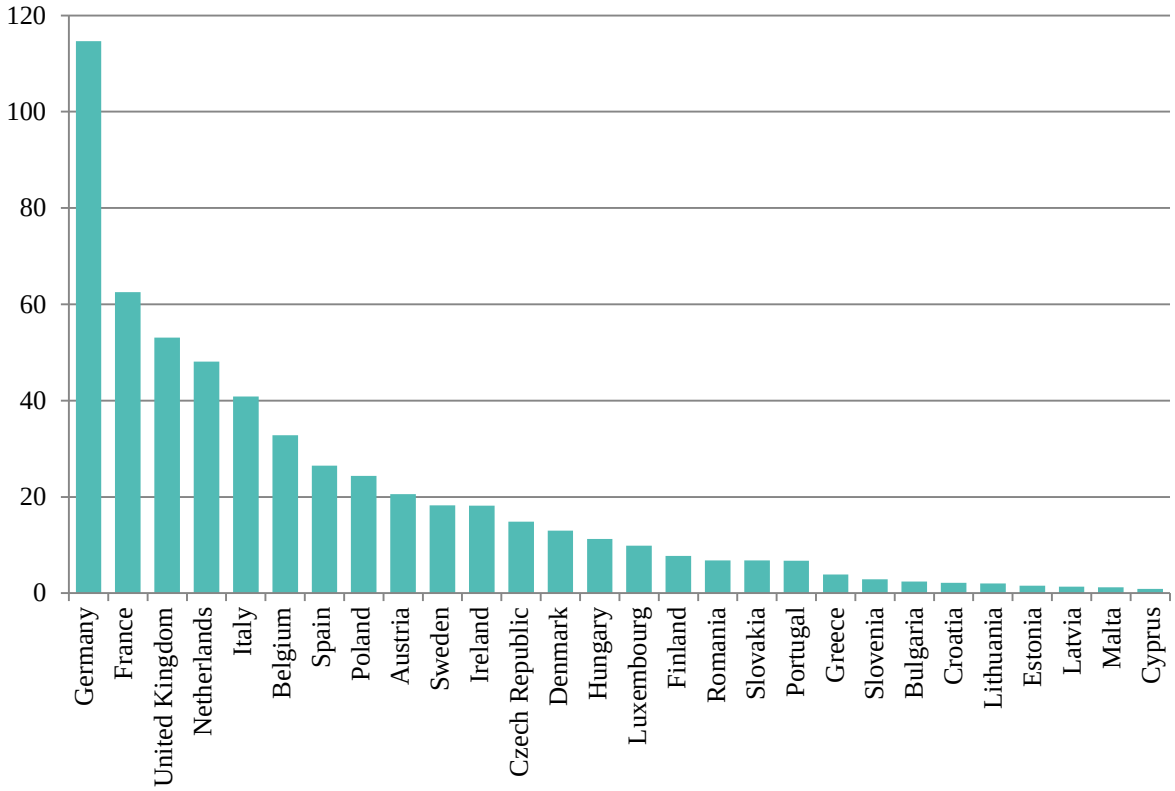


* Average operating budgetary balances 2014-2016 in EUR billion. Figures may vary per year.

EU spending also creates European public goods that benefit all. The benefits from stability, peace, common values, a level-playing field in Europe's Single Market, or a negotiating capacity which rivals the biggest global powers, do not show up in net balance calculations. For example, the Single Market has a significant and direct positive impact on jobs and growth. It allows companies to operate more efficiently, creates jobs and offers lower prices for consumers. It gives people the freedom to live, study and work where they want.

Benefits of Single Market integration

Gains in income (EUR billion, baseline year 2014)[1]



The Commission proposals for the future Financial Framework will be shaped by the principle of **European added value**. By focusing on common policies and priorities and the areas where the EU budget can deliver public goods that national spending cannot, we can move beyond the 'net balance' debate. With a well-designed, modern EU budget, all Member States are net beneficiaries.

3. Towards our priorities for the future

The next Multiannual Financial Framework should better align available financing with our political priorities. It should build on what works well today while also anticipating the challenges of tomorrow. In line with the Rome Declaration, the budget should enable a Europe that is safe and secure. A Europe that is prosperous and sustainable. A Europe that is social. And a Europe that is stronger on the global scene.

Europeans consistently point to **security and safety as a top priority** for their Union[2]. This comes at a time when instability in Europe's neighbourhood pose serious challenges both within and outside of our borders. The EU budget is instrumental in ensuring effective migration management, countering terrorism and addressing cyber threats. It has a crucial role to play in reinforcing the control of external borders. Our post-2020 budget will, for example, determine whether the vision of a strengthened and fully operational European Border and Coast Guard can be realised in practice.

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1 Source: Gabriel Felbermayr, Jasmin Gröschl, Inga Heiland (2018), Undoing Europe in a New Quantitative Trade Model, ifo Working Paper No. 250. The chart shows the gains in income attributable, according to the model applied, to being part of the Single Market.

2 Special Eurobarometer 464b: European's attitudes towards security, December 2017.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK[3]

How can the EU budget support better management of the EU's external borders?

Leaders have called for stronger external borders as a precondition to lifting internal borders. In 2016, the **European Border and Coast Guard** was set up based on a proposal from the European Commission. By 2020, the European Border and Coast Guard will have 1,015 staff, including field operatives – as well as at least 1,500 national staff on standby in the rapid reaction pool. Its annual budget of EUR 292 million should increase by that time to EUR 335 million. The EU also provides funding to co-finance national management of Europe's external border by 96,000 national border guards and emergency support through the Internal Security Fund (Borders). Combined, these activities amount to around EUR 4 billion over a seven year period, or 0.4% of the total EU budget.

The future development of the European Border and Coast Guard will depend on the decisions taken on the future Financial Framework. Depending on the level of ambition, several scenarios could be envisaged:

- **Exploiting the existing European Border and Coast Guard to the maximum** would support the continuous development of the information exchange framework (Eurosur), as well as Member States' capacity investments for border management. It would also ensure that the European Border and Coast Guard has access to the equipment it needs. This would require a budget of **around EUR 8 billion over a seven year period**, corresponding to approximately 0.8% of the current Multiannual Financial Framework.
- An **upgraded European Border and Coast Guard** would allow support for a fully integrated EU border management system. This would be based on a revised legal framework with an expanded mandate, bringing together and reinforcing the existing tools related to risk assessment and situational pictures; stepping up the operational capacity of the agency with a standing corps of European border guards of at least 3,000 EU staff; providing financial support and training for the increase of the national border guard component in vulnerable Member States; bigger and more operational expert pools; and reinforced own equipment. It would entail a much stronger return role at the EU level; and lower intervention thresholds for the Agency to help prevent serious shortcomings in the external border controls that could lead to a crisis. This scenario would require a budget of **around EUR 20 – 25 billion over a seven year period,** corresponding to approximately 1.8 – 2.3% of the current Multiannual Financial Framework.
- A **full EU border management system** would imply 100,000 EU staff and a substantial EU equipment pool, comparable to the US or the Canadian system. It would require **around EUR 150 billion over a seven year period,** taking into account all national expenditure on border protection. This would correspond to approximately 14% of the current Multiannual Financial Framework, the equivalent of an annual EU budget. As an example, the US Customs and Border Protection agency alone has an annual budget of US$ 13.56 billion and more than 62,000 employees. The Canada Border Services Agency has an annual budget of about Can$ 2 billion and more than 14,000 employees.

Our Union will also need well-designed, flexible and streamlined instruments in relation to **defence**. We face complex security challenges that no Member State can meet on its own. Europe will need to take greater responsibility for protecting its interests, values and the European way of life, in complementarity with the North Atlantic Treaty Organisation. While the Union cannot substitute Member States' efforts in defence, it can complement and leverage their collaboration in developing the defence capabilities needed to address our common security challenges. This would avoid duplication and allow for a more efficient use of taxpayers' money.

[3] Policy options set out in this document are intended to illustrate possible choices to be made, based on ideas put forward in the public debate. They are not exhaustive and do not necessarily reflect the position of the European Commission.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How best to support a true European Defence Union?

The **European Defence Fund** was launched in June 2017 and is gradually being built up. With a limited initial budget of EUR 90 million for defence research and EUR 500 million for industrial development for the period 2017-2020 (taken together, this represents approximately 0.05% of the current Financial Framework), it will in its first phase only be able to support a limited number of collaborative research and development projects.

What type of defence fund do we want for the future? A true European Defence Union would require a significant budgetary investment.

- Given the scale of existing national defence research budgets – France and Germany are each individually spending more than EUR 1 billion per year on defence research – and the high costs of developing cutting-edge defence technologies, including for cyber-defence, the **research window** of the Fund would need an estimated budget of **at least EUR 3.5 billion over the period** to make a substantial difference.
- Likewise, at least around EUR 7 billion would be needed between 2021 and 2027 to co-finance part of the cost of **defence industrial development**. This would allow leveraging a significant total investment for the development of defence capabilities of **at least EUR 35 billion over seven years**. This would correspond to 14% of national spending on defence capabilities. It would be a major step towards the target agreed by Member States in the European Defence Agency to use 35% of their equipment spending for collaborative projects.
- The European Defence Fund has the potential to provide an important boost to the EU's strategic autonomy and the competitiveness of Europe's defence industry. However, due to the limitations of the Treaties the EU budget is not able to cover all EU areas of action in the field of security and defence. A separate funding mechanism of **around EUR 10 billion for the 2021-2027 period** would significantly increase the EU's ability to financially support **operations with defence implications.** This would compare to up to EUR 3.5 billion under the current period.

Two years after the Paris Agreement, the EU also needs to remain firmly in the lead in fighting **climate change** and ensuring a smooth transition towards a modern, clean and circular economy. The experience with climate mainstreaming should be taken into account. The EU must also make good on its commitment to the United Nations Sustainable Development Goals. The EU budget also supports Europe's unique **social market economy**. Economic and social realities differ across Europe, from employment and poverty rates to social protection systems. The EU budget will need to deliver on the promises made by Leaders at the Gothenburg Social Summit. This means further developing the social dimension of the Union, including through the full implementation of the European Pillar of Social Rights, and supporting young people and the mobility of European citizens. Adequate resources will be required to improve employment opportunities and address the skills challenges, including those linked to digitisation.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How best to support the mobility of young people?

After 30 years, Erasmus+ has helped nine million young people to study, train, teach or volunteer in another country, boosting their chances on the labour market. The current Erasmus+ programme 2014-2020 has a budget of EUR 14.7 billion (around 1.3% of the overall size of the current Multiannual Financial Framework), which can only offer learning mobility opportunities for less than 4% of young people living in Europe.

There is a strong consensus for the need to step up mobility and exchanges, including through a substantially strengthened, inclusive and extended Erasmus+ programme. Depending on the level of ambition, several scenarios could be envisaged:

- **Doubling the number of young people** in the EU participating in Erasmus+ to reach 7.5% of young people across Europe would require an investment of **EUR 30 billion** in the next Multiannual Financial Framework (over a seven year period).
- Providing the opportunity for **1 in 3 young people** to participate in an Erasmus+ learning experience abroad would require a budget for the 2021-2027 period in the order of **EUR 90 billion**.

State-of-the-art connectivity of digital, energy and transport infrastructure is key to Europe's territorial, social, and economic cohesion. Europe must embrace the potential of innovation and seize the opportunities it brings. In particular, technological change and digitisation are transforming our industries and the way we work, as well as our education and welfare systems. Europe lags behind on the road towards a digital economy and society. The digital investment gap not only undermines Europe's innovation and growth capacity but also its potential to respond to emerging societal needs. Unlocking online opportunities and completing the **Digital Single Market** is therefore a key priority of the Union.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How best to power Europe's digital transformation?

EU support for Europe's data infrastructure, connectivity and digital skills amounts to around EUR 35 billion over the seven-year period. This is provided through the European Regional Development Fund (EUR 17 billion), the Research and Innovation Framework Programme (EUR 13 billion), the European Social Fund (EUR 2.3 billion), the Connecting Europe Facility (EUR 1 billion) and the Creative Europe Programme (EUR 1 billion).

- **Maintaining or even lowering current investment levels** would risk compromising the EU's ability to remain competitive in key industrial and service sectors such as industrial production and machinery, financial services, health care, transport, energy or the automotive industry. Underinvestment in digital skills would further widen the gap between demand and available expertise, while automation will replace traditional tasks. This would translate into lower jobs and growth prospects, sub-standard public services and higher vulnerability to cybersecurity threats.
- **Doubling the amounts currently invested in the digital economy to around EUR 70 billion** over the period 2021-2027 would deliver strong progress towards smart growth in areas such as high quality data infrastructure, connectivity and cybersecurity. It would enable the roll-out of new trusted and secure services in e-health, e-government or mobility. It would help secure European leadership in supercomputing, next generation internet, artificial intelligence, robotics and big data. This would reinforce the competitive position of industry and businesses in Europe across the digitised economy. It would also have a significant impact on filling the skills gap across the Union.

The EU budget provides a launch pad for researchers and their teams to pursue research and stimulate innovation. Europe also needs to help create the conditions for companies to scale up. Developing mid-cap companies and small and medium-sized enterprises beyond the start-up phase remains a challenge. Many entrepreneurs leave Europe in search of better conditions to grow. **Research and innovation** are crucial for our future. They are the only way to simultaneously and sustainably tackle low economic growth, limited job creation and global challenges such as health and security, food and oceans, climate and energy.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How best to boost competitiveness through research and innovation?

For advanced economies like Europe, research and innovation make the difference in enhancing productivity and boosting competitiveness. The future EU budget must therefore allow the EU to invest in the drivers of innovation enabling European industry to grow and thrive. The Union is currently spending close to EUR 80 billion for its Horizon 2020 Research and Innovation Framework Programme over 2014-2020. What research budget should it have in the future?

- **Maintaining or even lowering current investment levels** would not address the problem of underfunding. This would have knock-on effects on national and private investment, and undermine efforts to reach the target set by the Europe 2020 strategy of investing 3% of Gross Domestic Product in research and development. The Union would fall further behind compared to the world leaders. Research support to other EU policies would be reduced.
- **An increase in the Framework Programme by 50% to EUR 120 billion** would create an estimated additional 420,000 jobs by 2040 and increase Gross Domestic Product by around 0.33% over the same period. This would continue the growing trend of recent EU Research and Innovation budgets and ensure an acceptable share of high-quality proposals funded. It would increase the Union's world-wide attractiveness for leading researchers and tackle weaknesses in innovation and scale-up opportunities. It would support progress on priorities such as digital, energy, climate and health.
- **Doubling the Framework Programme to EUR 160 billion** would create an estimated 650,000 jobs by 2040 and add around 0.46% to Gross Domestic Product over the same period. It would enable the EU to emerge as a global leader in large-scale initiatives, preparing full market deployment of solutions in areas like batteries, infectious diseases, smart and clean buildings and vehicles, decarbonisation technologies, circular economy, solutions for plastic waste and connected/automated cars.

With the economy expanding at above 2% annually, we are now turning the page on the EU's worst economic and financial crisis. The **euro area** has enlarged to 19 Member States and the euro is the second most used currency in the world. All but one of the EU-27 Member States are legally committed to join the euro area at some stage. Financial markets have regained their pre-crisis strength and recent improvements, including the establishment of the Banking and Capital Markets Union, give us the opportunity to fix the roof while the sun is shining.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How can the EU budget underpin a genuine Economic and Monetary Union?

In December 2017, the Commission set out a vision of how **the euro area and the Union as a whole could be strengthened using the EU's budget** – both today and tomorrow. Four specific functions were presented: to support structural reforms at national level; to facilitate convergence for Member States on their way to joining the euro; to provide a backstop for the Banking Union; and to develop a stabilisation function, bringing together different EU and euro area level funds and instruments, to help maintain investment levels in the event of large asymmetric shocks. These functions require a rethink that goes over and above the constraints of the current EU budget. For instance, this could be done through synergies with the European Investment Bank and a future European Monetary Fund. However, our budget post-2020 will also need to play its part:

- The reform delivery tool and the convergence facility will need to be able to provide **strong support and incentives for a broad range of reforms across Member States**. A budget line in the order of at least **EUR 25 billion** over a seven-year period would provide critical mass and help avoid a concentration of funding on a few Member States only.
- The **stabilisation function** is to be built progressively over time, relying on back-to-back loans guaranteed by the EU budget, loans from the European Monetary Fund, a voluntary insurance mechanism based on national contributions as well as a grant component from the European budget. The amounts required from the EU budget would not necessarily need to be very high but would need to be significant enough to, for example, reduce the interest burden of the loans and provide incentives to properly implement the support scheme.

Cohesion policy is the Union's main investment policy to reduce disparities among regions and Member States by offering equal opportunities to people across Europe. It is a major driver of job creation, sustainable growth and innovation in Europe's diverse regions. By providing incentives for reform through a stronger link with the European Semester, in particular the Country Specific Recommendations, the future cohesion policy could strengthen its role as a driver for the modernisation of our economies.

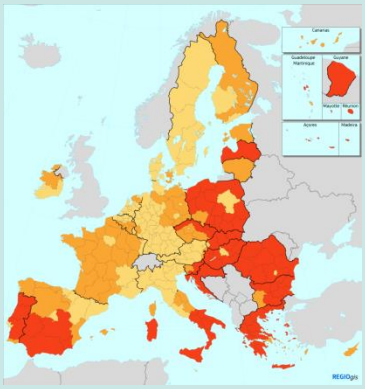
OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

What level of ambition for an efficient cohesion policy?

Cohesion policy is a concrete expression of solidarity with less economically developed parts of our Union. Its purpose is to foster economic, social and territorial cohesion. Support from the European Structural and Investment Funds is currently available to all EU Member States. Should this continue or should the policy be limited to **less developed regions and/or Member States?** If eligibility is maintained for all, what should the level of ambition be?

- If the eligibility for support from the European Regional Development Fund, the European Social Fund and the Cohesion Fund were to be maintained for all Member States and all regions, **efficiency gains could be achieved by modulating aid intensities and better targeting support**. **If current expenditure levels of around EUR 370 billion**[4], accounting for almost 35% of the Multiannual Financial Framework, were maintained, this would allow a strong focus to be maintained on investment across all regions in areas like innovation, industrial transformation, transition to clean energy, climate action, and better employment opportunities.
- If the European Regional Development Fund and the European Social Fund were to end support for more developed and transition regions, this would amount to a **reduction of approximately EUR 95 billion** over the period, accounting for more than a quarter of current allocations from those funds. This corresponds to around 8.7% of the current Multiannual Financial Framework. In this scenario, support for regions in Austria, Belgium, Denmark, Finland, mainland France, Germany, Ireland, the Netherlands, Sweden and many regions in Italy and Spain would be discontinued.
- If support were limited even further to cohesion countries, investment for less developed regions in France, Italy and Spain would also need to be discontinued. This would amount to a **reduction of approximately EUR 124 billion** over the period, accounting for around 33% of the current allocations. This corresponds to around 11% of the current Multiannual Financial Framework.

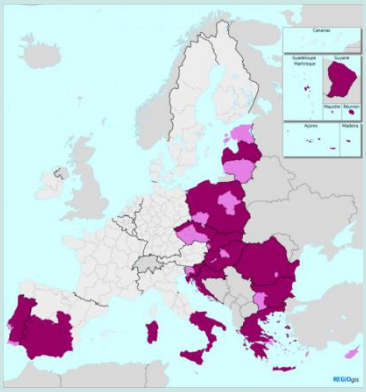
In scenarios 2 and 3, support for economic, social and territorial challenges would have to be taken over by national, regional and local authorities in line with the principle of subsidiarity.



Scenario 1: Support for all European regions

Categories of regions

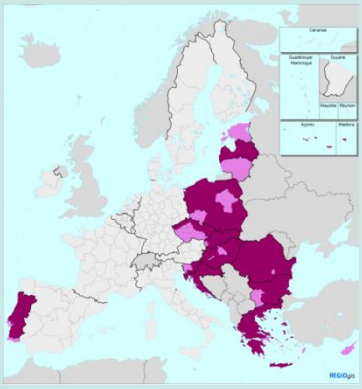
- **Less developed**: GDP/head < 75% of EU-27 average
- **Transition**: GDP/head >= 75% and < 100% of EU-27 average
- **More developed**: GDP/head >= 100% of EU-27 average



Scenario 2: Support for less developed regions and cohesion countries

Potentially eligible regions

- Regional support
- Cohesion Fund support
- Other regions



Scenario 3: Support for cohesion countries only

Potentially eligible regions

- Regional support
- Cohesion Fund support
- Other regions

[4] Around EUR 12 billion of that amount are preallocated to the United Kingdom, corresponding to approximately 3% of the cohesion envelope over the period.

A modernised **Common Agricultural Policy** will need to support the transition towards a fully sustainable agricultural sector and the development of vibrant rural areas. It must ensure access to safe, high quality, affordable, nutritious and diverse food. A modernised Common Agricultural Policy must enhance its European added value by reflecting a higher level of environmental and climate ambition and addressing citizens' expectations for their health, the environment and the climate. Europe needs a smart and resilient agricultural sector based on a strong socio-economic fabric in rural areas.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

What level of ambition for an efficient Common Agricultural Policy?

In the 2014-2020 framework, the Common Agricultural Policy mobilises around EUR 400 billion to finance market measures, direct payments for farmers and rural development programmes in order to promote sustainable agriculture and viable rural economies. Direct payments represent around 70% of this amount. Rural development programmes support investment, training and more resource-efficient agricultural production and are currently worth around EUR 100 billion over the period. These programmes are co-financed by Member States. Through the Common Agricultural Policy, the Union is helping to address structural problems in rural areas, such as a lack of attractive employment opportunities or skills shortages. Creating new value chains such as clean energy and bio-energy, and helping rural areas to profit from its scenic value are among the key objectives of these efforts.

Discussions are ongoing as to how to make best use of direct payments. A prominent suggestion is to reduce and better target direct payments, in line with the objectives of the policy. **Today, 80% of direct payments go to 20% of farmers**. Ways to reduce differences of agricultural support between Member States are also being discussed. Changes to the system of direct payments could provide an opportunity to focus payments on expected results, such as sustained agricultural production in less profitable or mountainous regions, a focus on small and medium sized farms, investments in sustainable and resource efficient production systems and better coordination with rural development measures.

- Maintaining expenditure levels of **around EUR 400 billion**[5] over the period for the Common Agricultural Policy, corresponding to approximately 37% of the current Multiannual Financial Framework, would through better targeting allow **support in particular for small and medium sized farms to be increased** with positive knock-on effects for rural areas.
- A reduction of support for the Common Agricultural Policy by 30% would represent **around EUR 120 billion** over the period of the next Multiannual Financial Framework, or approximately 11% of the current Multiannual Financial Framework. This scenario could see average farm income drop by more than 10% in a number of Member States and potentially more pronounced income drops in specific sectors.
- A reduction of support for the Common Agricultural Policy by 15% would represent **around EUR 60 billion** over the period of the next Multiannual Financial Framework, or approximately 5.5% of the current Multiannual Financial Framework. In this scenario, the reduction of average farm incomes would be more limited but could still have a noticeable impact in certain sectors depending on the choices made.

These scenarios cannot be seen in isolation. Any reduction in direct payments should be accompanied by better targeting the remaining budget, for example through an increased focus on small and medium sized farms and better coordination with rural development measures.

The Union must also be able to deliver on its **international goals**. The Union and its Member States are collectively the world's biggest providers of development assistance. EU citizens expect Europe to play a leading role in the world, to promote good governance, democracy, the rule of law and human rights, and sustainable economic development. They want Europe to project stability and security, in particular in Europe's immediate neighbourhood. They want Europe to provide the critical mass to tackle the root causes of global challenges such as irregular migration and violent extremism. They want Europe to support sustainable

[5] Around EUR 27 billion of that amount are preallocated to the United Kingdom, corresponding to approximately 7% of the total Common Agricultural Policy.

development, the eradication of poverty, and the promotion of better governance and the rule of law, including tackling corruption and organised crime. They want Europe to respond to crises whether they be man-made or natural. They want Europe to lead multilateral discussions on matters of world-wide concern, to continue to promote a rules-based global order, and to foster co-operation in areas of common interest, from the economy, to energy, peace and security, defence and climate action.

At the same time, instability and conflicts in our southern neighbourhood and beyond have been aggravated by the global economic crisis. This has exacerbated **migratory pressures** with more people than ever on the move in the region. This will remain a reality and a challenge. We must consolidate and reinforce the external dimension of our efforts to tackle migration and provide support to growth and job creation.

In this context, we should look for intelligent synergies with international financial institutions and national promotional and development banks, in order to make sure that scarce resources are spent effectively and private investments mobilised where possible. The European Sustainable Development Fund, the core of the EU's External Investment Plan, is a model that could be expanded in the future.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How best to project our interests abroad?

In future, the Union will need to be equipped with instruments that allow it to deliver on existing and new ambitions and challenges. In the 2014-2020 framework, the budget dedicated to external action amounts to around EUR 66 billion. It represents around 6% of the current Multiannual Financial Framework. Furthermore, the European Development Fund, currently outside the Union budget, is the main instrument for providing development assistance to African, Caribbean and Pacific countries and to overseas countries and territories. The total financial resources of the 11th European Development Fund amount to around EUR 31 billion for the period 2014-2020.

In future:

- An **increase of the current volume of financing for external instruments beyond EUR 100 billion** over the period would allow the EU to meet the existing and new ambitions, which range from international cooperation, migration management, investment, governance, human rights and rule of law, to promoting the Sustainable Development Goals, humanitarian assistance, crisis response and conflict prevention. Particular attention will need to be given to supporting the EU's strategy for the Western Balkans as well as the EU's stabilisation efforts in its neighbourhood and in Africa.
- A significant **simplification and streamlining of external instruments** could further enhance the effectiveness and efficiency of the external relations budget. This could include the integration of the European Development Fund in the Multiannual Financial Framework, provided that this is reflected in the overall expenditure ceiling and that existing flexibilities are preserved.

The budget for external relations should also be seen against the backdrop of the EU's and Member States' collective **commitment to devote 0.7% of Gross National Income to Official Development Assistance by 2030**. This would entail an additional effort in the next Multiannual Financial Framework in the order of EUR 40 billion over seven years, without the participation of the UK. This assumes that the EU would maintain its current share of 20% of Official Development Assistance.

4. Modernising the EU Budget

The priorities and policy options set out above illustrate the choices to be made for the future EU budget. These choices will determine the size and ambition of the first Multiannual Financial Framework of the Union at 27. They will define the level of ambition for Europe and to what extent the Union is able to live up to the promise of the Bratislava Agenda.

The next Financial Framework needs to be sufficiently large in size and sufficiently flexible in nature. It needs to be large enough to manage new priorities and deal with the withdrawal of the United Kingdom. The shortfall resulting from the United Kingdom's withdrawal should be covered in equal measure by "fresh" money and savings in existing programmes. It will need **to combine proportionate savings and redeployments within the EU budget with a willingness to provide additional resources to deliver on new priorities**.

It is also clear that the impact of the European budget depends not only on its size but also on the design and implementation of policy programmes**. European added value**, **enhanced performance and simplification** are the keys to a modern and effective EU budget. Further streamlining of rules and procedures will help to achieve this aim. Europe's spending programmes must reflect our determination to make sure that every euro is spent in the most efficient way possible and that results are quickly felt on the ground.

This requires making best use of instruments such as **guarantees, loans or financial instruments**. The reinforced European Fund for Strategic Investments is for example playing a key role in catalysing private investments throughout Europe. By investing jointly in research, innovation and infrastructure, we have been able to create jobs and growth while tackling the global challenges of the day, from climate change, to science, transport, energy and space policy.

The successful use of these instruments requires a clear strategy and a more streamlined approach. Grants and subsidies will continue to be needed for projects that do not generate revenue, like an Erasmus+ exchange or humanitarian assistance. However, guarantees and financial instruments can leverage the budget wherever there is a market interest.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How to do more with less through financial instruments?

The Commission's Reflection Paper on the Future of EU Finances underlined the importance of guarantees and financial instruments in helping to do "more with less". The European Fund for Strategic Investments is for example expected to mobilise more than EUR 500 billion, a major boost to the European economy. However, the current landscape of EU market-based instruments is fragmented, with almost 40 financial instruments and three budgetary guarantees and guarantee funds managed centrally, which amount to a share of around 4% of the current Multiannual Financial Framework. In the area of small and medium-sized enterprises alone, there are seven financial instruments managed centrally and several hundred in shared management. There is clear scope for rationalisation and greater efficiency.

- One option to improve the efficiency and impact of instruments aiming at investment support in the EU could be their integration within a **single investment support instrument**. This would further reinforce the European Fund for Strategic Investment and have a positive impact on investment levels, economic growth and employment across the EU.
- A wider use of financial instruments and budgetary guarantees could **more than double** the investments mobilised over the next Multiannual Financial Framework up to EUR 2 trillion.

Budgetary **flexibility** is another key principle that should underpin the next Multiannual Financial Framework. This will be essential to adapting to new needs and unstable geopolitical and domestic conditions. Building on the existing mechanisms, special instruments will remain crucial for dealing with emerging challenges like migration or humanitarian assistance. In addition, there is a strong argument for re-thinking existing mechanisms to ensure that allocated budgets effectively support European priorities. This is not always currently the case, since a part of the budgetary commitments provided for in the Multiannual Financial Framework are later cancelled. This can happen for a number of reasons, such as delays in getting projects off the ground, formal mistakes in project implementation or errors in claiming costs. As a result, the EU budget is not being used to its full potential to support EU objectives and provide European added value. This is a missed opportunity to support our common priorities.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

How to make the most of decommitted funds?

Currently, funds that have been committed to the EU budget but which are ultimately not spent in the implementation of EU programmes are cancelled. These resources reduce the annual calculations of Member States' gross national contributions compared to the full implementation of budgetary commitments.

- Instead of cancelling these amounts, they could be used as a **Union reserve**. This reserve could be deployed to achieve common priorities and respond to common challenges. Current estimates suggest that **around EUR 21 to 28 billion could become available through this mechanism over a 7-year period**. Such amounts could have been used, for example, in 2015 to finance the European Fund for Strategic Investments and address the investment gaps that opened up as a result of the financial crisis. This would have been done instead of cutting valuable programmes like Horizon 2020 or the Connecting Europe Facility. Similarly, the reserve could have been used in 2016 to support the establishment of the Facility for Refugees in Turkey, which required the use of all the flexibility in the EU budget as well as separate contributions by Member States. It would also have allowed more funding to be mobilised swiftly to address the migration crisis.
- In today's fast-changing world, unpredictable events will occur with increasing frequency. The Union Reserve would allow a more swift and decisive reaction to such developments. We will still be implementing the next Financial Framework almost ten years from now. This long-term stability is an asset but also a constraint. A Union Reserve would provide a powerful and flexible new tool to tackle unforeseen events and respond to emergencies in areas such as security and migration.

Finally, as part of the public debate, it has been suggested that the disbursement of EU budget funds could be linked to **the respect for the values set out in Article 2** of the EU Treaty and in particular to the state of the rule of law in Member States. Some have gone further, arguing that serious breaches of EU law should have consequences and should lead to the suspension of disbursements from the EU budget.

The Union is a community of law and its values constitute the very basis of its existence. They permeate its entire legal and institutional structure and all its policies and programmes. Respect for these values must therefore be ensured throughout all Union policies. This includes the EU budget, where respect for fundamental values is an essential precondition for sound financial management and effective EU funding. Respect for the rule of law is important for European citizens, as well as for business initiatives, innovation and investment. The European economy flourishes most where the legal and institutional framework adheres fully to the common values of the Union.

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

Should we make EU funding more conditional?

The potential of the EU budget can only be fully unleashed if the economic, regulatory and administrative environment in the Member States is supportive.

This is why, under the current Multiannual Financial Framework, all Member States and beneficiaries are required to show that the regulatory framework for financial management is robust, that the relevant EU regulation is being implemented correctly, and that the necessary administrative and institutional capacity exists to make EU funding a success. In addition, policy conditionality can foster the cooperation between Member States in areas where economies of scale or externalities are significant. New provisions were also introduced under the current Multiannual Financial Framework to avoid situations where the effectiveness of EU funding is undermined by unsound economic and fiscal policies.

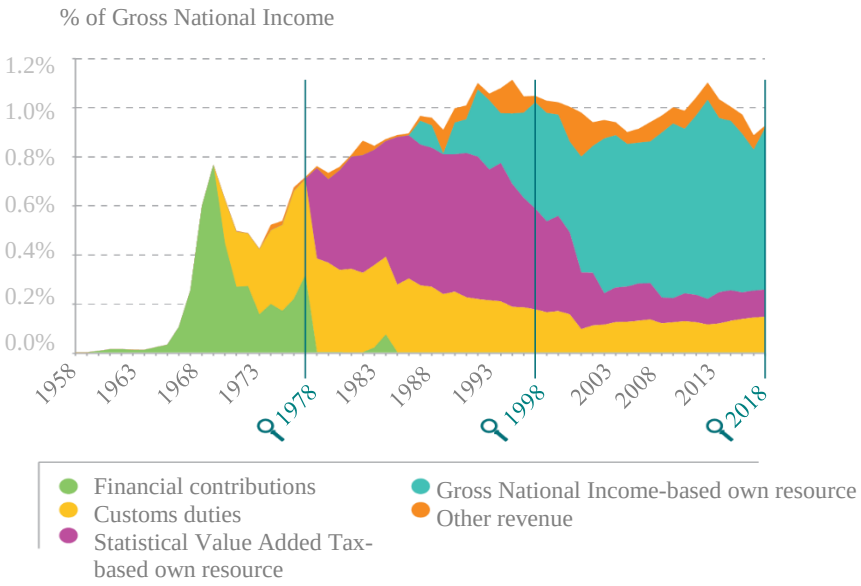
The new Multiannual Financial Framework is an opportunity to look at whether these principles have created a solid platform for results. It is also the moment to consider how the link between EU funding and the respect for the EU's fundamental values can be strengthened.

Any such mechanism would however need to be transparent, proportionate and legally watertight. While it could in principle apply to all relevant policies involving expenditure from the EU budget, any financial conditionality would need to be precise, proportionate and require a sufficient connection between the conditions imposed and the aim of the funding. This debate will also need to consider the impact of possible breaches of fundamental values or the rule of law at national level on the individual beneficiaries of EU funding, such as Erasmus students, researchers or civil society organisations, who are not responsible for such breaches[6].

5. Financing the EU Budget

The debate on the post-2020 Financial Framework will cover not only what the EU budget should be used for, but also how it will be financed in future. The revenue side of the budget has become complicated and the link between the goals of the EU budget and the way it is funded has become progressively weaker.

Sources of financing of the EU budget



[6] This would follow the logic of Article 7(3) of the Treaty on European Union, which provides that any suspension of rights of Member States "shall take into account the possible consequences […] on the rights and obligations of natural and legal persons."

A reform of the revenue side of the EU budget would help to focus the debate on objectives and on those areas where the EU can deliver real added value[7].

OPTIONS FOR THE FUTURE FINANCIAL FRAMEWORK

What could new Own Resources bring to the EU budget?

- **Emission Trading System**: The European Emissions Trading System is the cornerstone of EU climate policy. A number of allowances are auctioned by Member States and purchased by companies to cover their greenhouse gas emissions. A share of the proceeds from the auctioning of allowances could be made available for the EU budget. Depending on the market prices for allowances, a share of the revenues generated by the Emission Trading System could generate estimated revenues between EUR 7 billion and EUR 105 billion over seven years.
- **VAT-based Own Resource**: Value Added Tax is a consumption tax assessed on the value added to all goods and services sold in the EU. Today, the Own Resource based on that tax relies on very complex statistical calculations. A reformed Own Resource could be levied from a simplified Value Added Tax base. Revenues from the current VAT-based Own Resource are currently around EUR 105-140 billion over seven years and could be adjusted by calibrating the call-rate in function of required levels.
- **Common Consolidated Corporate Tax Base**: Large companies greatly benefit from the Single Market. The Common Consolidated Corporate Tax Base is a single set of common rules for the calculation of companies' taxable profits in the Union. A contribution based on a harmonised corporate tax base, possibly including a digital component, would reinforce the link between the benefits of the Single Market and the financing of the Union. Each Member State would retain the possibility to tax its share of the profits at its own national tax rate. Depending on the model chosen and the call-rate applied, a tax linked to the common consolidated corporate tax base could bring between EUR 21 and EUR 140 billion over seven years, not including expected revenue from the decrease of tax evasion.
- **Seigniorage** is the term used to describe the revenue which central banks and governments accrue from issuing money. Since monetary income of the European Central Bank for the issuance of the euro is directly linked to the Economic and Monetary Union, it could be considered as a possible new Own Resource. An amount corresponding to a share of the net profits arising from national central banks' shares in euro area monetary income paid out to national treasuries, could be made available for the EU budget as a form of national contribution. A similar logic was applied in respect of the income generated by the European Central Bank and the national central banks from accumulated Greek Government bonds when in 2012 Eurogroup Ministers agreed on a transfer of the equivalent of the income generated by the Eurosystem holding (European Central Bank and national central banks) of Greek government bonds to Greece. Depending on the percentage applied, estimated revenues from seigniorage could range between EUR 10.5 billion (10%) and EUR 56 billion (50%) over seven years.

New Own Resources could be used to forge an even more direct link to Union policies[8]. This could notably be the case to support sustainability objectives, the Single Market and the Economic and Monetary Union. For example, a share of the revenues from the Emission Trading System could help support EU sustainability goals. The Value Added Tax-based Own Resource should be simplified and should take account of the ongoing reform towards a single European Value Added Tax area. An Own Resource based on a share of revenue from the relaunched common consolidated corporate tax base would strengthen the link between

[7] See the report on "Future financing of the EU" presented in January 2017 by a high-level group set up jointly by the European Parliament, the Council and the European Commission and chaired by Mario Monti.

[8] Changes to the Own Resources Decision needed to reform the system would require unanimity in the Council, after consultation of the European Parliament, and ratification by all Member States in accordance with their Constitutional requirements. Such changes have been made before as part of the package accompanying each new Multiannual Financial Framework. Changes in the Own Resources ceiling are in any event be likely to be required to cover financial liability linked to loans or financial facilities guaranteed from the EU budget, the new stabilisation function and the possible integration of the European Development Fund in the Multiannual Financial Framework.

the benefits of the Single Market and the financing of the EU budget. A share of the income earned by the European Central Bank for the issuance of banknotes is another example of a possible new source of revenue for the EU budget. Further Own Resources, including those mentioned in the Monti report, are being looked at in more detail.

The withdrawal of the United Kingdom will present an opportunity to radically simplify the revenue side of the budget. The rebate previously granted to the United Kingdom, and the rebates received by other Member States contributing to the financing of the United Kingdom rebate, made the revenue side of the budget more complex and less transparent. There is now a strong case for eliminating all such corrections as part of a fair and balanced budget package.

6. The importance of the right timing

A swift political agreement on a new, modern EU budget will be essential to demonstrate that the Union is ready to deliver on the positive political agenda outlined in Bratislava and Rome.

This would show that, following the withdrawal of the United Kingdom in 2019, the Europe of 27 is unified, has a clear sense of purpose and direction, and is ready to deliver. And it would give the best possible chance for new programmes to hit the ground running on schedule on 1 January 2021, turning political objectives into quick results on the ground.

An early agreement is not only politically desirable. It is also a practical imperative. All our partners and beneficiaries of EU funding as well as national and regional authorities need legal and financial certainty. They need time to prepare the implementation of the new programmes. The late adoption of the current Financial Framework led to significant delays in the launch of the new programmes and consequently to the achievement of our funding priorities.

The opportunity cost of such delays is high. A seamless transition to the new Multiannual Financial Framework will be vital to maintain the momentum of the economic recovery, and to allow the Union to continue to act swiftly and decisively in the many areas where speed of response is key to success.

We must therefore make sure that the experience of the current framework is not repeated.

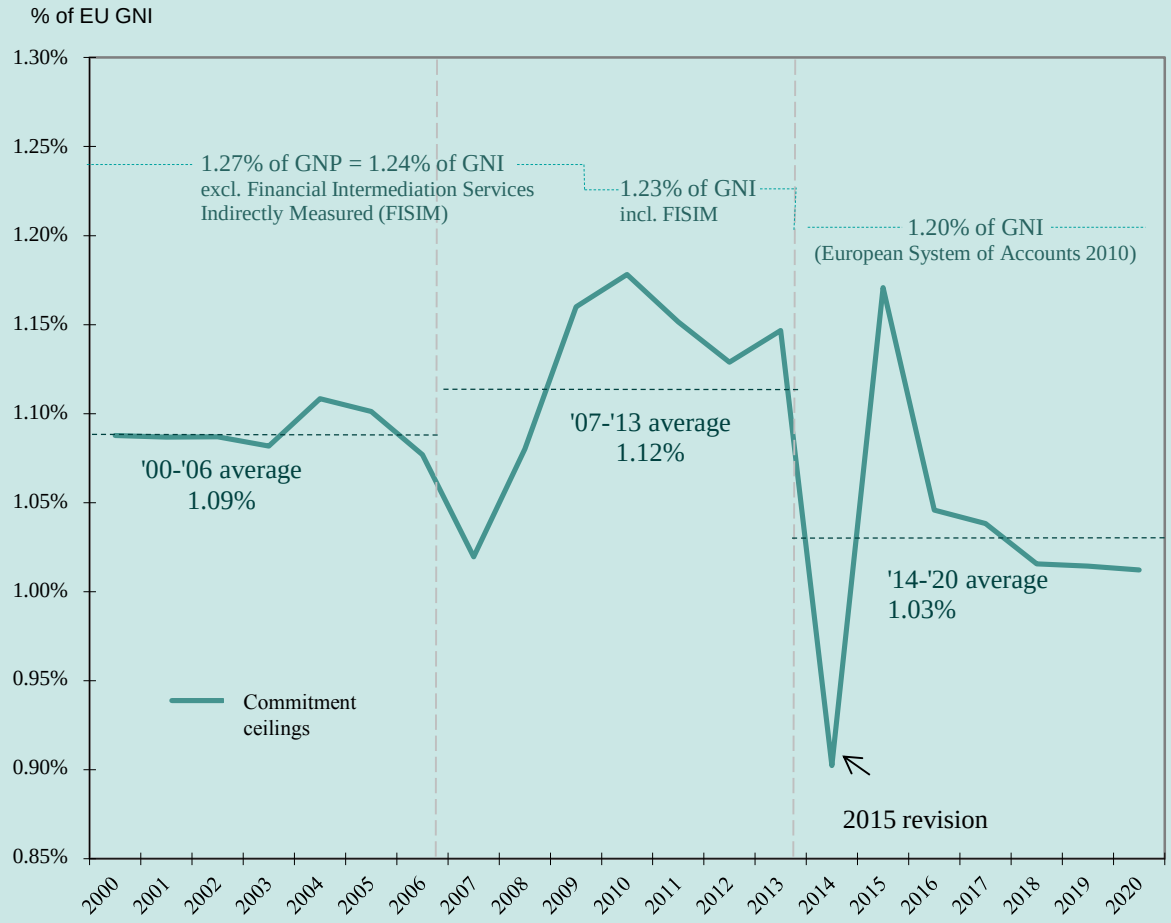
Agreement on the next Multiannual Financial Framework in 2019 would not only send a signal of a strong and united Europe of 27 that is able to deliver convincingly, it would also ensure predictability and continuity of funding to the benefit of all.

WHY DO DELAYS MATTER?

The launch of the 2014-2020 European Structural and Investment Fund programmes was significantly delayed. Legislation for the sectoral programmes was only finalised in December 2013 following an agreement on the Multiannual Financial Framework in the first half of that year. This has delayed the adoption of the detailed rules needed to make the programmes work on the ground, as well as the subsequent negotiation of the Partnership Agreements with the Member States.

As a consequence, investments were delayed, as was the support for much needed projects and reforms. This came in addition to an important reduction of commitment appropriations at the beginning of the current period.

Evolution of commitment ceilings between 2000 and 2020 (current prices)



Delays have real consequences for people.

- The legal acts for the Asylum, Migration and Security Funds were only adopted in 2014. This meant that to the designation of authorities and adoption of programmes only came in 2015. As a result of the delay, Member States were not able to launch projects in time. **This impacted on reception and accommodation capacities in Member States and the management of borders**. The delays made it very difficult for the Greek administration to use EU funding to prepare for the crisis in 2015. Shelters were not ready. Conditions to receive refugees were poor at a time people in need of protection were pouring into the islands between June and September 2015. At the same time, other Member States, including Sweden and Austria, did not have EU funding at their disposal to help accommodate people coming through the Balkan route. The EU had to use emergency assistance to support these Member States in these challenging times.

- A number of international actions under the Erasmus+ programme could not be achieved in 2014 due to the late adoption of the last Financial Framework. This meant that around **25-30,000 exchanges between students and teachers from our Member States and our partner countries planned for 2014 could not take place that year.** If such delays were to occur for the whole programme, as many as 1,000,000 young people would not be able to benefit from an Erasmus+ exchange in 2021.
- Delays in implementing the next Research Framework Programme would imply the **loss of around 5,000 research jobs per month** (around 3-4% of overall EU research jobs) and an additional 7000 jobs in the wider economy. More than 200 research publications would be lost for the same period, including around 100 high-impact articles.
- Delays in selecting projects in the early stage of implementation of the cohesion programmes would mean **more than 100,000 projects would not be able to start on time.** The areas impacted include business support, energy efficiency, health care, education and social inclusion.
- A number of large-scale infrastructure projects would also be strongly impacted by delays. Space programmes like Galileo or Copernicus have long investment cycles. They therefore need **predictability when it comes to procurements**. An ongoing procurement process for a number of Galileo satellites will be concluded in 2019 and can only be fully implemented once the new legal and budgetary requirements are fully in place.
- Other examples of the negative effects of delays in agreeing a new financial framework include **Rail Baltica.** The project will build a **crucial railway link into the Baltic States** and should be completed by 2025/2027. The project must be able to launch the major procurements it needs for construction in 2021. This is crucial for the completion of a project that will help connect five million people in the Baltic States to the rest of Europe. The high-speed rail link will cater at the same time for freight flows all the way from Finland to Germany, the Benelux and the Adriatic.
- The **Brenner base tunnel** is planned to be completed by 2027, with the rail engineering works due to start under the next MFF. It is a crucial project to shift half of the 2.2 million trucks of the Brenner motorway to rail. This will cut down on pollution in the precious valleys between Munich-Innsbruck and Verona.
- The **Fehmarn Belt between Denmark and Germany**, the **Evora-Merida railway link** that will finally connect Lisbon and Madrid**, the Lyon-Torino base tunnel** that will connect the high-speed railway networks of France and Italy are also all due to be completed by the end of the next Multiannual Financial Framework.

Such projects cannot afford to see delays in planning or procurement simply because of the late adoption of the next Multiannual Financial Framework.

CONCLUSION

The post-2020 Multiannual Financial Framework will be a litmus test for the European Union at 27. When Leaders meet to take decisions on the future of Europe in Sibiu, Romania on 9 May 2019, **the Union of 27 must be a Union of action. Decisive progress on the Financial Framework** by then would show that the Union can bridge the gap between political priorities and the delivery of tangible results for all Europeans.

A timely agreement on a new, modern Financial Framework will only be possible with the strong guidance of EU Leaders and close engagement from the outset with the European Parliament. The European Council meetings in October 2018 and December 2018 will be crucial milestones in this process.

The Commission is ready to play its role to the full. We have been listening to EU institutions, Member States, national Parliaments and representatives of all the many stakeholders who have a stake in the future budget. We will continue to listen in the months to come. **All the options and figures cited in this Communication are illustrative and intended to stimulate an open debate. They do not represent the Commission's definite position.**

Final decisions on the Multiannual Financial Framework will be for European Leaders to take, with the consent of the European Parliament.

Our proposals will expand on the ideas presented in this Communication and will provide a solid basis for a timely agreement by all Member States with the consent of the European Parliament. They will take as their starting point the priorities that the Leaders have agreed together.

The proposals will demonstrate clearly what these priorities mean in financial terms. Maintaining this link is essential for the credibility of the future EU budget. If the Union decides to do less, a smaller budget will suffice.

But wherever the Union decides to do more, the financial consequences must follow.

Europeans expect a strong Union able to face the challenges of the future and a budget that can deliver for them. **Leaders must play their part in meeting these expectations**.

The Commission invites Leaders to:

- *support a **new and modern Multiannual Financial Framework**, which serves a Europe that **protects, empowers and defends**;*
- *stand fully and firmly behind the **priorities** agreed on 16 September 2016 in Bratislava and on 25 March 2017 in the Rome Declaration,*
- *acknowledge that in order to translate these priorities into financial terms, a **budget of sufficient size is necessary** which is backed by an intelligent combination of proportionate savings, redeployments and fresh resources;*
- *support a reform of the **revenue side** of the EU budget as part of a balanced overall package for the next Multiannual Financial Framework, **eliminating corrections** and establishing a closer link with concrete policy objectives of the Union;*
- *express their commitment to work closely with the European Parliament and the European Commission on the concrete proposal for the Multiannual Financial Framework with an understanding that the Commission presents its proposal by **early May 2018 at the latest**.*
- *commit to making **decisive progress** on the Multiannual Financial Framework by their meeting in Sibiu on 9 May 2019 in order to get the Europe of 27 off to the best possible start.*