MULTIANNUAL FINANCIAL FRAMEWORK (MFF)

cep Centrum für Europäische Politik

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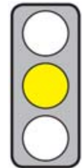
MAIN ISSUES

Objective of the Communication, Regulation and Draft Interinstitutional Agreement: The Commission wishes to launch a debate on EU expenditure priorities for the period 2014–2020.

Affected parties: All citizens and companies, especially the beneficiaries of EU funding.



Pros: (1) Legally binding expenditure ceilings ensure that the political decision-making processes at EU level do not lead to excess spending.

(2) The participation of private investors in the development of infrastructures offers the prospect that this also takes place with a stronger focus on economic considerations.

Cons: (1) The expenditures planned for the agricultural sector are economically not justifiable.

(2) All budget-relevant issues are subject to the MFF Regulation.

CONTENT

Title

Communication COM(2011) 500 of 29 June 2011: **A Budget for Europe 2020**

Proposal COM(2011) 398 of 29 June 2011 for a **Council Regulation laying down the multiannual financial framework for the years 2014-2020**

Draft Interinstitutional Agreement COM(2011) 403 of 29 June 2011 **between the European Parliament, the Council and the Commission.**

Brief Summary

Note: The pages quoted refer to the Communication COM(2011) 500 Part I; articles quoted refer to the Regulation Proposal COM(2011) 398, unless otherwise provided for; amounts refer to constant 2011 prices.

- **Role of the Multiannual Financial Framework (MFF) in EU budget law**
  - The EU provides itself with the means necessary to cover its financial needs (Art. 311 (1) TFEU).
  - EU revenues and expenditures are included in the annual draft budget (Art. 310 (1), Art. 314 TFEU). The expenditure items must not exceed the revenues (revenues budget principle; Art. 310 (1), (4) TFEU, Art. 14 (1) Financial Regulation 2002).
  - The MFF as an instrument of medium-term financial planning serves to maintain the budgetary discipline and the transparency of the budgetary procedure.
    - The MFF sets the legally binding ceilings for the annual budgets in advance (Art. 312 (1) TFEU, Art. 2 (1)).
    - The MFF is adopted for a period of at least five years (Art. 312 (1) TFEU).
- **Establishing the MFF: MFF Communication, MFF Regulation and Draft Interinstitutional Agreement**
  - The MFF Communication [COM(2011) 500] contains a new MFF for the EU budgets 2014-2020, including planned expenditure priorities and their financing.
  - The MFF Regulation [COM(2011) 398] constitutes the legal implementation of the Communication (Art. 312 TFEU).
  - The Draft Interinstitutional Agreement (IIA) between the EP, the Council and the Commission [COM(2011) 403], which accompanies the MFF Regulation, regulates procedures and expenditures outside the MFF.
- **Commission Proposal concerning the 2014-2020 MFF**
  - The ceiling of the total expenditures is based on the gross national income (GNI) of the EU.
    - The GNI corresponds to gross domestic income (GDP), in other words the monetary value of all goods and services produced in an economy within a year, less the revenues paid to the rest of the world (e.g. interest payments) but plus the revenues received by the rest of the world (e.g. interest earned).
  - The Commission proposes an EU financial volume to the amount of 1.11% of GNI = 1,083 bn Euro (2007-2013: 1.063% = 1,007 bn Euro). It is to consist of:
    - the actual MFF to the amount of 1.05% of GNI = 1,025 bn Euro (2007-2013: 1.048% = 993 bn Euro), and
    - further “possible“ expenditures outside the MFF to the amount of 0.06% of GNI = 58 bn Euro (2007-2013: 0.015% = 14 bn Euro).
- **Expenditure priorities of the EU budget 2014-2020 (s. CEP-Overview)**
  - **Basic principles**
    According to the Commission, the EU’s expenditures should mainly focus on the following three areas:
    - Key policy areas of the EU, e.g. energy, climate protection and measures to implement “Europe 2020“ (s. CEP Topic Page);

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- Projects providing "European added value", for instance by creating economies of scale; for example, EU funds should help to win private investments for in particular the development of infrastructures (see also the Consultation Paper on EU subsidies for project related bonds; s. CEP Policy Brief); and
- Support programmes allowing for a comparison between the results and the agreed targets; in future, beneficiaries should be provided with easier access to programmes but must prove that the received funds serve to implement EU priorities (principle of conditionality).

– **Expenditures within the MFF (selection)**

The proposed budgets are legally binding ceilings.

- Common Agricultural Policy (CAP): 384.4 bn Euro (2007-2013: 385 bn Euro)
  This budget continues to be used for existing CAP targets, such as ensuring a "fair" standard of living for the agricultural community and "reasonable" consumer prices, as well as in future for the promotion of the sustainable cultivation of natural resources.
- The cohesion and structural funds: 376 bn Euro (2007-2013: 353 bn Euro)
  The "largest share" (p. 13) of cohesion funding is to be spent on regions with a per capita income of less than 75% of EU GDP. However, in future, also regions with a per capita income between 75% and 90% of EU GDP are to become entitled to receive 2/3 of the existing funds (so-called "transition regions").
- Research and innovation: 80 bn Euro (2007-2013: 50.5 bn Euro)
  The Commission justifies the increase with a "significant innovation gap" (p. 10) in the EU, as evidenced, for example, by the fact that less than 3% of GDP ("3% target") is being spent on research and development (2008: 1.9%). In addition, "important support" from structural funds will continue to be provided for this (2007-2013: 60 bn Euro).
- New "Connecting Europe" infrastructure facility 40 bn Euro (2007–2013: –)
  This budget is to foster new cross-border infrastructures in the fields of energy, transport and information and communications technology (ICT). It is unclear whether these funds are to be provided additionally or whether funds from other expenditure programmes, such as the cohesion and structural funds, which currently contribute to the set-up of infrastructure, will be cut accordingly.
- Education: 15.2 bn Euro (2007-2013: 8.8 bn Euro).
  According to the Commission, there is still "scope" to increase EU support measures "for all levels of formal education and training" (p. 17). Moreover, further "important support" from structural funds is to be provided for education and training measures (2007-2013: 72.5 bn Euro).

– **Expenditures outside the MFF (selection)**

The proposed budgets are not subject to any MFF ceilings. They are partly regulated under IIA and partly in separate legal acts.

- The European Globalisation Fund (EGF) pursuant to B.4. No. 13 of IIA: for the quick reintegration of workers who have lost their jobs due to globalisation, 3 bn Euros (2007-2013: 3.5 bn Euro) are available; in future, the EGF will also apply to the agricultural sector.
- The European Financial Stabilisation Mechanism (EFSM) pursuant to Regulation (EC) No. 407/2010: the EU may use the EFSM to grant Euro rescue credits at a volume of up to 224 bn Euro (2010-2013: 68 bn Euro; the EFSM was introduced in 2010); (for detailed information on the calculation mode and concept of the EFSM see CEP Analysis).
- Where "necessary", the MFF ceilings can be adjusted downwards in order to overall comply with the own resources ceiling (cp. Art. 2 (2), (3) in conjunction with Art. 3).

► **Funding the EU budget 2014-2020**

– Until now, the EU budget has been mainly funded through:
  - Traditional own resources, i.e. EU revenues from customs and taxes levied on agricultural products, such as sugar (share in the overall budget 2011: 14.1%);
  - Further own resources, i.e. direct contributions by Member States (share in overall 2011 budget: 81.2%).

– On the one hand, direct contributions are based on the volume of the national GNI (70%) and on the other hand, on the volume of national VAT collected (11.2%).

– Direct contributions give rise to the "my money back" attitude (p. 7), which is when Member States want through EU programmes that just as much funding flows back to them as they have paid into the EU. According to the Commission, this undermines the objective of creating added value to the EU by way of EU revenues.

– The Commission wishes to reduce the direct contributions of Member States and proposes new forms of financing "that are closer to the original intention of the treaties" (p. 7).
  - A new EU-specific financial transaction tax: this should serve to form a new revenue flow at the same time as helping Member States to consolidate their budgets, as their direct contributions could shrink.
  - A new EU-specific VAT: This is not explained in detail; however, it is meant to substitute the existing complex system of direct contributions calculated according to the amount of the national VAT revenues.

Changes to the Status Quo

- Regarding the changes to the selected expenditure priorities, please see the brief summary.
- To date, the medium-term financial planning of the EU has been based on the informal "financial perspectives" stipulated in the form of interinstitutional agreements between the EP, the Council and the Commission. Since the Lisbon Treaty, the medium-term financial planning in the form of MFF Regulations is stipulated according to a special legislative procedure (Art. 312 (2) TFEU). This regulatory instrument is to be applied for the first time.

Policy Context

In 2010, the Commission developed criteria (e.g. cross-border relations) for financing forms which are to partly replace the direct contributions of Member States [s. Communication COM(2010) 700, p. 30 et sqq.]. It wishes to implement this with its Proposal for a Council Decision concerning new own resources [COM (2011) 510]. The Commission intends to submit concrete legislative proposals for EU taxes by the end of 2011.
In its Final Conclusions of 29 October 2010, the European Council called upon the Commission to take into account the consolidation efforts of Member States in their proposal on the MFF 2014-2020.
The European Parliament complained in its Resolution of 8 June 2011 (No. 166) that the "my money back" attitude dilutes the common European interest.

Legislative Procedure (Regulation Proposal)

29 June 2011	Adoption by the Commission
Open	Adoption by the Council and the European Parliament, publication in the Official Journal of the European Union, entry into force

Options for Influencing the Political Process (Regulation Proposal)

Leading Directorate General:	DG Budget (and General Secretariate)
Committees of the EP:	Budget Committee (in charge), Rapporteur: Reimer Böge (EPP Group, DE)
Committees of the German Bundestag:	Budget Committee (subcommittee for EU affairs), EU Affairs Committee
Decision mode in the Council:	Unanimity
Decision mode in the EP:	Absolute majority (rejection by 368 of 736 votes; Germany: 99 votes)

Formalities (Regulation Proposal)

Legal competency:	Art. 312 TFEU
Form of legislative competency:	Exclusive competency (Art. 2 (6), 312 (2) TFEU)
Legislative procedure:	Art. 312 (2) TFEU (extraordinary legislative procedure)

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The MFF provides for legally binding **expenditure ceilings which** require budgetary discipline and also **ensure that political decision-making processes do not lead to excess spending**. For instance, the EU cannot comply with the request of single Member States for increased EU subsidies without reducing the subsidies to other Member States at the same time. Hence, Member States are reliant on finding solutions within the scope of the set ceilings. However, this commitment by Member States does not apply to expenditures outside the MFF. **Therefore, it is not comprehensible why the Commission wishes to significantly increase expenditure outside the MFF** as compared to the previous period.
The single Member States do not really have enough in the way of investment incentives to carry out infrastructure projects which create benefits not only to the Member State itself but to further Member States by creating a "European added value". Therefore, a promotion of precisely these projects is appropriate.
However, this objective cannot be achieved until the "my money back" attitude – also criticized by the Commission – is no longer at the centre of awarding finance. To this end, it is all the more surprising that the Commission wishes to support regions with relatively strong structures (so-called "transition regions") through funds from the cohesion and structural funds. This is a political concession to the net contributors who profit most from it.
The planned **participation of private investors in the development of infrastructure offers the prospect that this development takes place with a stronger focus on economic considerations**, for private investors will only participate if the projects are based on a sustainable financing model.
The principle of conditionality applicable to the award of finance on the one hand allows for a more appropriate use of funds. On the other hand, it increases the administrative costs for payment beneficiaries. This is contrary to the objective of facilitating access to EU support programmes. The Commission does not explain how it intends to solve this conflict of aims.

Impact on Efficiency and Individual Freedom of Choice

The expenditures planned for the agricultural sector are economically not justifiable. The granting of "reasonable consumer prices" – by necessity politically defined – constitutes an expensive planned economy intrusion into price formation. **Price formation**, however, **should** not **be based** on political wishful thinking but **on actual supply and demand behaviour,** for only prices resulting from the market process provide manufacturers and consumers with important information on existing scarcity. Moreover, farmers have their own interest in the sustainable cultivation of natural resources.

Research and innovation are the driving forces of economic development. The Commission justifies the planned increased expenditures in this field with the "significant innovation gaps" in the EU, which, according to the Commission, is reflected by not reaching the "3% target". However, there is no compelling link between the share of research expenditures in the GDP and actual innovations. Instead, it is essential where and how research funds are spent.

Moreover, EU expenditures should be limited to the promotion of basic research, as investment incentives for companies are very low in this field; private funding is normally not possible where the purpose of application is unknown, whereas such investment incentives do exist in application-oriented research and in concrete innovation projects, as pioneer value creation is possible here. Furthermore, the market can detect those innovations for which a demand is developed later more cost-effectively and more efficiently. Although the Commission does not comment on these issues, its promotion plans make it clear that it wishes to support not only basic research but also application-oriented research and concrete innovations [e.g. Communication COM(2010) 546 on building the Innovation Union; s. CEP Policy Brief].

Impact on Growth and Employment

The new facility "Connecting Europe" can help improve the cross-border infrastructure connection. This increases the division of labour in Europe and thus promotes growth and employment.

Impact on Europe as a Business Location

As even the Commission itself admits [SEC(2010) 7000, p. 31], the introduction of the financial transaction tax reduces the quality of Europe as a business location for all companies of the financial sector, unless such a tax is levied in other parts of the world, too. However, this cannot be expected in the foreseeable future.

Legal Assessment

Legislative Competency

Unproblematic. The EU is obliged to establish an MFF and respect it (Art. 312 TFEU).

Subsidiarity

The principle of subsidiarity does not apply due to the exclusive EU competency (Art. 5 (3) TEC).

Compatibility with EU Law

The splitting of budget provisions into the MFF Regulation and the IIA is legally questionable. The recognition of the IIA as a form of action through the Lisbon Treaty (Art. 295 TFEU; cp. also Art. 324 TFEU) does not mean that the requirements of the extraordinary legislative procedure of the MFF Regulation (Art. 312 (2) TFEU) may be undermined. It is already problematic that important procedural issues of coordination between the EP, the Council and the Commission continue to remain under the scope of an IIA; according to the Lisbon Treaty, they should be subject to the MFF Regulation (Art. 312 (3) TFEU).

Under no circumstances must any expenditure items, such as the EGF, be shifted from the MFF to the IIA **and thus be withdrawn from the strict MFF rules of the TFEU**. The same concerns exist in respect of the exemption of expenditure items which, like the EFSF, are regulated in separate legal acts.

The introduction of EU taxes on the revenue side, as advocated by the Commission, is possible in terms of EU law (Art. 311 (1), (3) TFEU). However, an approximation "closer to the original intention of the treaties" is out of the question. The EU has never had and does not have sovereignty in general.

Compatibility with German Law

The MFF itself is not problematic. It does not have any direct financial impact, yet.

The planned introduction of new EU taxes, however, does affect national tax sovereignty. In Germany, such an introduction requires a two-third majority in the *Bundestag* and the *Bundesrat* (Art. 23 (1), 79 (2) GG, § 3 (1) IntVG; cp. BVerfG "Lissabon", 2 BvE 2/08 et al., paras. 312, 314). Besides, the decision on the form and amount of the taxes and other charges affecting German citizens must be essentially made by the German *Bundestag* (cp. BVerfG „Lissabon", 2 BvE 2/08 et al., para. 256; BVerfG „Euro-Rettung", 2 BvR 987/10 et al., para. 126).

Conclusion

The expenditure ceilings provided by the MFF ensure that political decision-making processes do not lead to excess spending. Therefore, the expenditures not covered by the MFF should, contrary to the Commission's plans, under no circumstances be increased. The participation of private investors in the development of infrastructures means that this can also take place with a stronger focus on economic considerations. Expenditures in the agricultural sector under GAP are economically not justifiable. All budget-relevant issues should be subject to the MFF Regulation.